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August 19, 2010

Barbara Neilson
Administrative Law Judge
Office of Administrative Hearings
600 North Robert Street
St. Paul, MN 55101

Re: In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink
Docket No. P-421, et al./PA-10-456

Dear Judge Neilson:

Enclosed please find August H. Ankum's Direct Testimony on behalf of Cbeyond Communications, LLC; Charter Fiberlink CCO, LLC; Integra Telecom, Inc.; Level 3 Communications, LLC; McLeodUSA Telecommunications Services, Inc. d/b/a Paetec Business Services; US Link, Inc. d/b/a TDS Metrocom; tw telecom of minnesota, llc; Orbitcom, Inc. and Popp.com, Inc. in the above entitled Docket. The Direct Testimony is organized with questions and answers being presented by August Ankum.

Very truly yours,

Dan Lipschultz

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DL/cm
Enclosures
cc: All parties of record
1645241v1

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA	)	In the Matter of the Joint Petition for Approval
	) ss.	of Indirect Transfer of Control of Qwest
COUNTY OF HENNEPIN	)	Operating Companies to CenturyLink

MPUC Docket No. P-421, et al./PA-10-456
OAH Docket No. 11-2500-21391-2

Carolyn McCune, being first duly sworn on oath, deposes and states that on the 19th day of August, 2010, a copy of the August H. Ankum's Direct Testimony on behalf of Cbeyond Communications, LLC; Charter Fiberlink CCO, LLC; Integra Telecom, Inc.; Level 3 Communications, LLC; McLeodUSA Telecommunications Services, Inc., d/b/a Paetec Business Services, US Link, Inc., d/b/a TDS Metrocom; tw telecom of minnesota, llc; Orbitcom, Inc. and Popp.com, Inc., in the above entitled docket was filed electronically or mailed by United States first class mail, postage prepaid thereon, as designated on the Official Service List on file with the Minnesota Public Utilities Commission.

Carolyn McCune

SWORN TO BEFORE ME this
19th day of August, 2010.

NOTARY PUBLIC

1645244v1

JEAN J. HUNSINGER
Notary Public-Minnesota
My Commission Expires Jan 31, 2015

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd	Chair
J. Dennis O'Brien	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink	Docket No. P-421, et al./PA-10-456

DIRECT TESTIMONY

OF

AUGUST H. ANKUM, PH.D.

ON BEHALF OF CBEYOND COMMUNICATIONS, LLC; CHARTER FIBERLINK CCO, LLC; INTEGRA TELECOM, INC.; LEVEL 3 COMMUNICATIONS, LLC; MCLEODUSA TELECOMMUNICATIONS SERVICES, INC. d/b/a PAETEC BUSINESS SERVICES; US LINK, INC. d/b/a TDS METROCOM; TW TELECOM OF MINNESOTA, LLC; ORBITCOM, INC. AND POPP.COM, INC.

August 19, 2010

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Exhibit AHA-6: Moody's, Standard and Poor's, and Morgan Stanley reports

I. PROFESSIONAL QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is August H. Ankum. My business address is QSI Consulting, 150 Cambridge Street, Suite A603, Cambridge, Massachusetts, 02141.

Q. WHAT IS QSI CONSULTING, INC. AND WHAT IS YOUR POSITION WITH THE FIRM?

A. QSI Consulting, Inc. ("QSI") is a consulting firm specializing in regulatory and litigation support, economic and financial modeling, and business plan modeling and development. QSI provides consulting services for regulated utilities, competitive providers, government agencies (including public utility commissions, attorneys general and consumer councils) and industry organizations. I am a founding partner and currently serve as Senior Vice President.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I received a Ph.D. in Economics from the University of Texas at Austin in 1992, an M.A. in Economics from the University of Texas at Austin in 1987, and a B.A. in Economics from Quincy College, Illinois, in 1982.

My professional background covers work experiences in private industry and at state regulatory agencies. As a consultant, I have worked with large companies, such as AT&T, AT&T Wireless, Bell Canada and MCI WorldCom ("MCIW"), as well as with smaller carriers, including a variety of competitive local exchange carriers ("CLECs") and wireless carriers. I have worked on many of the arbitration proceedings between new entrants and incumbent local exchange carriers ("ILECs"). Specifically, I have been involved in arbitrations between new entrants and NYNEX, Bell Atlantic, USWEST, BellSouth, Ameritech, SBC, GTE and Puerto Rico Telephone. Prior to practicing as a telecommunications consultant, I worked for MCI Telecommunications Corporation ("MCI") as a senior economist. At MCI, I provided expert witness testimony and conducted economic analyses for internal purposes. Before I joined MCI in early 1995, I worked for Teleport Communications Group, Inc. ("TCG"), as a Manager in the Regulatory and External Affairs Division. In this capacity, I testified on behalf of TCG in proceedings concerning local exchange competition issues, such as Ameritech's Customer First proceeding in Illinois. From 1986 until early 1994, I was employed as an economist by the Public Utility Commission of Texas ("PUCT") where I worked on a variety of electric power and telecommunications issues. During my last year at the PUCT, I held the position of chief economist. Prior to joining the PUCT, I taught undergraduate courses in economics as an Assistant Instructor at the University of Texas from 1984 to 1986.

A list of proceedings in which I have filed testimony is attached hereto as Exhibit AHA-1.

Q. DO YOU HAVE EXPERIENCE WITH THE ISSUES IN THIS PROCEEDING?

A. Yes. I have been involved in telecommunications since 1988, and over the course of my career, I have worked and testified on virtually all issues pertaining to the regulation of incumbent local exchange companies, including those governing their wholesale relationship with dependent competitors, such as competitive local exchange carriers ("CLECs"). I have also worked on numerous proceedings involving competitive and market dominance issues, including those pertaining to the FCC's triennial review cases and merger analyses.

Q. ON WHOSE BEHALF ARE YOU FILING THIS DIRECT TESTIMONY?

A. My testimony is being filed on behalf of the following CLECs: Cbeyond Communications, LLC; Charter Fiberlink, LLC.; Integra Telecom, Inc.; Level 3 Communications, LLC.; McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services; US Link, Inc. d/b/a TDS Metrocom; tw telecom of Minnesota, LLC.; Orbitcom, Inc. and POPP.com, Inc.

II. PURPOSE AND SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to evaluate whether the proposed merger between CenturyLink[1] and Qwest is in the public interest.

Having reviewed the companies' petition,[2] supporting testimony and data request responses, I believe it is not. As I will demonstrate, the proposed transaction

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[1] I will use CenturyLink (as opposed to CenturyTel) to refer to the company seeking to acquire Qwest, unless referring specifically to the legacy CenturyTel company that existed prior to the merger with Embarq.

should either be rejected *in total* or in the alternative, approved only if and when the Commission has imposed firm, specific, and enforceable conditions on CenturyLink and Qwest (hereafter collectively referred to as "Joint Petitioners") in order to safeguard the state of competition and wholesale customers.

Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A. As discussed herein, and in the testimony of my colleague Mr. Timothy Gates, the information provided by the Joint Petitioners is inadequate to demonstrate that the proposed transaction is in the public interest. Moreover, the information indicates that the proposed transaction would post a serious risk to wholesale customers, such as CLECs, when the Joint Petitioners seek to integrate their two companies post-merger. The proposed transaction will potentially jeopardize the viability of CLECs and will likely harm competition in Minnesota.

Specifically, my testimony will discuss the following:

- The economic incentives underlying mergers.
- A brief overview of past mergers in the telecommunications industry, demonstrating a troublesome history of mergers and the likelihood of failure.
- The potential harm and absence of any public benefit from the proposed transaction.
- The need for conditions and commitments to prevent or mitigate the risk of harm to competition resulting from the proposed transaction and ensure that the merger is in the public interest.
- Some specific conditions and commitments that should be required of Joint Petitioners as prerequisites for approving the merger. (A complete list is provided by Mr. Gates.)

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[2] Qwest Communications International, Inc., CenturyTel, Inc. et al, Joint Petition for Expedited Approval of Indirect Change of Control, filed May 13, 2010 ("Joint Petition").

Q. DO YOU HAVE SOME PRELIMINARY OBSERVATIONS REGARDING THE PROPOSED TRANSACTION?

A. Yes. Mergers are often seen as a means of expeditiously growing a company, not organically (through competitive success and customer acquisitions with superior product offerings), but by means of a short cut: by buying another company and its products and customers. While proposed mergers are invariably touted by the merging companies as generating significant benefits, through potential synergies, increased economies of scale and scope, etc., in practice, it is very difficult to predict which mergers will be successful and which ones will not. An interesting, in retrospect ironic, example of supposed experts misjudging mergers is found in an issue of the *Harvard Business Review* (dedicated to mergers and acquisitions), which published the minutes of a roundtable discussion on the resurgence of mergers and acquisitions in the late nineties as follows:[3]

> **Moderator:** The announcement in January of the merger between ***America Online*** and ***Time Warner*** marked the convergence of the two most important business trends of the last five years: the rise of the internet and the resurgence of mergers and acquisitions. […]
>
> **Moderator:** I'm sure some of you are familiar with the studies suggesting that most mergers and acquisitions do not pan out as well as expected. Has that been your experience…Are mergers and acquisitions worth it?
>
> **Participant:** I would take issue with the idea that most mergers end up being failures. I know there are studies from the 1970's and '80's that will tell you that. But when I look at many companies today – in particular new economy companies like ***Cisco*** and ***WorldCom*** – I have a hard time dismissing the strategic power of M&A.

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[3] Dennis Carey, "Lessons from Master Acquirers: A CEO Roundtable on Making Mergers Succeed," *Harvard Business Review on Mergers and Acquisitions*, 2001, at pp. 2-3.

Rather than illustrate the success of mergers, the examples cited in this discussion show the opposite. Of the three companies mentioned (AOL/Time Warner, Cisco, and WorldCom), two were brought down by failed mergers, while the third, Cisco, is still prospering after its mergers, putting the failure rate of mergers at two out of three, which is about where the academic literature puts it.[4]

Q. ARE YOU SAYING THAT MERGERS ARE UNDESIRABLE?

A. No. Mergers and acquisitions may spawn innovative and profitable companies. At issue in this case, however, is the merit of the *instant transaction,* and an examination of past mergers and their failures (discussed below) should alert the Commission to various pitfalls of mergers and underscore the importance of carefully examining the impact of the proposed merger on all affected parties, including competitive carriers and their end-user customers. As discussed below, this merger raises serious public interest concerns that need to be weighed carefully against the backdrop of general merger risks and past merger failures.

Q. DO MERGERS OF ILECS RAISE UNIQUE ISSUES, NOT NECESSARILY RELEVANT TO MERGERS BETWEEN OTHER TYPES OF COMPANIES?

[4] This observation is found in many publications. See for example: Richard Dobbs, Marc Goedhart, and Hannu Suonio, "Are Companies Getting Better at Mergers and Acquisitions," *McKinsey Quarterly*, December 2006, at p. 1: "McKinsey research shows that as many as two-thirds of all transactions failed to create value for the acquirers"; Cartwright, Sue and Cooper, Cary, *Managing Mergers, Acquisitions & Strategic Alliances*, Butterworth-Heinemann, reprinted 2001, Section 3, Mergers and Acquisition Performance – a Disappointing History, discusses a number of studies, in line with the McKinsey studies; Pritchett, Price, After the Merger, *The Authoritative Guide for Integration Success*, McGraw-Hill, 1997, Chapter 1, Section Statistics on Merger Success and Failure, sets the failure rate at between 50% and 60%.

A. Yes. A merger involving a large ILEC such as Qwest touches on many public interest issues, particularly the public's interest in local exchange competition. To appreciate the public interest stake in this merger, it is important to recall the starting points of the ILECs' network investments.

Until the early 1990s, ILECs had a government-sanctioned monopoly to provide local services to captive ratepayers. In exchange, ILECs operated in a rate-regulated environment. Rate regulation meant that if an ILEC had increased operating costs, or was required to invest new capital to build out local infrastructure (*e.g.*, middle-mile or last-mile loop facilities), the ILEC had the ability to pass along those increased capital or operating costs by securing a rate increase from the state regulators. Those regulated rates provided for a rate of return that the ILEC was permitted to earn. Of course, ILECs often earned more than their authorized rate of return, and sometimes they earned less (which meant the ILEC was entitled to pursue higher rates). Not only was the ILEC able to secure rate increases when it proved its case to regulators, its monopoly status then assured it that every business and residential customer in its local exchange market would pay those regulated rates to obtain local service. Some states provided an alternative form of regulation, but the bottom line was that the ILEC had certainty that its Commission-approved rates would be paid by all its customers subscribing to local services. Thus, a material portion of the ILEC infrastructure in place today, especially the local loop infrastructure, was built when the ILEC was guaranteed that the cost of its investment would be paid for by captive customers through regulated rates that included an appropriate rate of return. That monopoly environment with its guarantees to earn an appropriate rate of return is in stark contrast to the competitive environment that CLECs created by their entry into local markets in which CLECs have to compete for every customer. The Telecommunications Act of 1996 resulted in CLEC entry into local exchange markets under provisions allowing them to use portions of the ILECs' networks and services, generally at TELRIC rates. This mandate allowing CLEC access to ILEC networks has created competition where none existed prior to 1996. However, a merger, such as the one proposed in the instant proceeding, could upset the wholesale relationship between ILEC and CLECs, and harm competition in Minnesota. Without reasonable, reliable and nondiscriminatory access to Qwest's and CenturyLink's networks, CLECs cannot get access to customers. As a result, an ILEC merger like the one between CenturyLink and Qwest in this case has unique and profound public interest implications not present in mergers in other industries or between two CLECs.

Q, HAS THE COMMISSION RECOGNIZED THESE ISSUES?

A. Yes. The Commission has observed that CLECs depend substantially on access to Qwest's network to provide competitive services to Minnesota consumers and have few if any alternatives to the ILEC's last-mile facilities.[5] As the Commission further observed, "[i]t is economically infeasible for the CLECs to

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[5] *In the Matter of Petition of Qwest Corporation for Forbearance Pursuant, to 47 U.S.C. § 160(c) in the Minneapolis/St. Paul Metropolitan Statistical Area*, Ex Parte Comments of Minnesota Public Utilities Commission, WC Docket No. 07-97 (Feb. 8, 2008), p. 6; *In the Matter of a Potential Proceeding to Investigate the Wholesale Rates Charged by Qwest Corporation*, MPUC Docket No. P-421/CI-05-1996, Findings of Fact, Conclusions and Recommendation of Administrative Law Judge (Oct. 15, 2009) ¶ 14, adopted by Commission in Order Requiring Price List and Supporting Rationale (April 23, 2010).

duplicate most of Qwest's wholesale facilities."[6] These findings also underscore the difference between telecom mergers that involve ILECs and mergers between CLECs or between companies in other sectors of the economy that do not warrant the same degree of regulatory scrutiny.

Q. DO CLECS DIFFER FROM OTHER AT-RISK STAKEHOLDERS IN THE PROPOSED MERGER?

A. Yes. An examination of past telecom mergers teaches us that the risks and gains of a merger are not evenly distributed among all stakeholders.

The Joint Petitioners' *shareholders*, for example, can sell their shares if they anticipate that things will go awry, or, alternatively, hold on to their shares to reap whatever benefits they may anticipate: it is a risk-return tradeoff each shareholder is free to either assume or walk away from. However, this freedom of choice does not exist for other, captive stakeholders. Specifically, retail customers in captive segments of retail markets have little or no choice and neither do wholesale customers, such as CLECs, who critically depend on the Joint Petitioners for interconnection, loops, transport, collocation and a variety of other wholesale network inputs. That is, captive retail and wholesale customers will not only reap *no gains* if the proposed transaction is successful, they may experience great harm when things go awry (as they have in so many of these ventures). This asymmetry in the risk-return profiles between various stakeholders is profound. Hence, the need for a regulatory review process to determine whether the proposed transaction is in the interest of *all* stakeholders.

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[6] *Id.* p. 7

Q. IS THERE A DIVERGENCE BETWEEN A PUBLIC INTEREST ANALYSIS AND THE PRIVATE RISK-RETURN ANALYSIS GUIDING THE JOINT PETITIONERS?

A. Yes. The Joint Petitioners need only consider their private risk-return trade-offs. In contrast, the Commission must consider the broader public interest, including the transaction's potential impact on other stakeholders who will likely not benefit from the proposed transaction, but may be harmed. Naturally, this is a broader analysis, and less likely to result in a finding that the proposed transaction should be permitted to move forward as proposed.

Q. ARE THERE ASPECTS TO THIS MERGER THAT ARE PARTICULARLY TROUBLING?

A. Yes. I have already noted that most mergers are not successful, even as measured by the ultimate impact of the merger on shareholders. Yet more troubling in this case is the fact that CenturyTel is seeking to acquire a much larger Bell Operating Company ("BOC") while it is still integrating the recently acquired Embarq, a company that was already about four times larger than the original CenturyTel. If the successful outcome of mergers is generally in question, the outcome of this one is particularly so.

What comes to mind is the experience of WorldCom, a one-time darling of Wall Street that in rapid succession acquired a number of firms of increasing size and complexity, culminating in the fateful acquisition of MCI and ultimately the financial collapse of WorldCom. While WorldCom was brought down by a number of missteps, some of them criminal, it is fair to say that much of its demise stemmed from the failure to successfully integrate the various acquired companies and the escalating challenges of ever-larger acquisitions. CenturyTel's proposed acquisition of Qwest on the heels of its recent acquisition of Embarq presents some disturbing similarities to the experience of WorldCom and other failed acquisitions.

The table below gives the approximate line counts of CenturyTel (as it existed before its Embarq acquisition), Embarq and Qwest, and demonstrates explosive growth.

	Year	**Access Lines**[7]	**% of Post-Merger Total**
CenturyTel	2009	1,300,000	8%
Embarq	2009	5,700,000	34%
Qwest	2010	10,000,000	59%
Total		**17,000,000**	**100%**

This exponential growth path raises questions, specifically about the ability of CenturyLink's management to handle the challenges of post-merger integration. Again, organic growth through customer acquisition, as a result of superior product offerings, is different from growth through mergers and acquisitions. With respect to organic growth, management proves its abilities to manage growth on an ongoing basis and exponential growth is a sign that management is doing things right. By contrast, growth by means of acquisitions may signify that management is able to maneuver nimbly in financial markets, but little, if

7 Line counts are taken from CenturyLink's testimony. The line counts in CenturyLink's testimony appear to be approximate line counts. See Direct Testimony of Duane Ring, filed June 14, 2010 ("Ring Minnesota Direct"), at pp. 5-6, and Exhibit DR 1, and Direct Testimony of Mark A. Gast, filed June 14, 2010 ("Gast Minnesota Direct"), at p. 5.

anything, about management's ability to run a much larger organization. It is the latter, however, that the Commission is tasked, among other issues, to evaluate.

Further, while CenturyLink may have integrated smaller firms, the company's current attempt to swallow a BOC should give regulators pause. To be sure, the challenge of integrating and running Qwest, with its unique BOC obligations, comparatively enormous customer base, substantial wholesale responsibilities, and complex set of operational support systems, is particularly daunting and far beyond anything CenturyLink has faced to date. Whatever may be CenturyLink's proven track record, integrating and managing a BOC is not a part of it.[8]

Q. DOES THE FACT THAT SBC AND VERIZON WERE ABLE TO ACQUIRE AND INTEGRATE FELLOW BOCS SUGGEST THAT CENTURYLINK WILL BE ABLE TO DO THE SAME WITH QWEST?

A. No. First, SBC and Verizon were large BOCs themselves. Given their common genealogy as Baby Bells, SBC's and Verizon's management knew what they were acquiring and how to run a BOC, with all the attendant regulations and obligations to which it is subject. Further, the BOCs still had a common corporate culture and were mostly working with common engineering practices inherited from Ma Bell. Also, when, for example, SBC acquired Ameritech, SBC was larger than Ameritech – not, as is the case here, smaller by a factor of 10 (using

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[8] Also, as has been suggested in the literature, the integration process is always different. As Cooper and Cartwright note: "Different acquisitions are likely to result in quite different cultural dynamics and potential organizational outcomes. Consequently, acquiring management cannot assume that because they were successful in assimilating one acquisition into their own culture, that same culture and approach to integration will work equally successfully with another acquisition." Garry L. Cooper and Sue Cartwright, *Managing Mergers, Acquisitions & Strategic Alliances*, Butterworth-Heinemann, 2nd Edition, reprinted 2001, at p. 25.

CenturyTel as the base). Nevertheless, regulators imposed substantial conditions as prerequisites to approving those BOC mergers in spite of the advantages inherent in mergers between BOCs as compared to a non-BOC's acquisition of a BOC such as Qwest.

Q. WHY SHOULD THE COMMISSION BE PARTICULARLY CONCERNED ABOUT POTENTIAL ADVERSE IMPACTS ON CLECS AND THEIR END USERS?

A. Because CLECs depend on Qwest and CenturyLink for interconnection and critical wholesale network inputs that are essential to their ability to provide competitive local exchange services. CLECs are generally captive customers of Qwest and CenturyLink, for these wholesale network inputs and, as the Commission recently recognized, have few if any alternatives. Further, CLECs compete with CenturyLink and Qwest for business and residential customers, which creates a perverse incentive structure in which CenturyLink and Qwest may have disincentives to provide CLECs with quality, reasonably priced, nondiscriminatory wholesale services and network access. In light of this, and the fact that the economic health of CLECs is critical to local exchange competition, it is important for the Commission to ensure that CLECs' interests are considered and protected.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission reject the proposed transaction. As discussed herein and in the testimony of Mr. Gates, this proposed transaction poses serious risks to the public interest, including the public's interest in robust competition from the many wholesale CLEC customers of Qwest and CenturyLink. However, if the Commission nevertheless decides to approve the transaction, then it should recognize the potential hazards faced by captive CLECs and their end user customers, and impose on Joint Applicants a set of stringent conditions and commitments, discussed herein and by Mr. Gates, in order to safeguard wholesale customers and competition.

III. STANDARD FOR REVIEW

Q. WHAT IS THE APPROPRIATE STANDARD FOR THE COMMISSION TO USE IN REVIEWING THE JOINT PETITIONERS' PROPOSED REORGANIZATION?

A. I am not a lawyer, but I understand, as stated by the Commission, that Section 237.23 "requires Commission consent before any merger or acquisition is consummated."[9]

I also understand that the merger-approval standard is whether the merger is consistent with the public interest. As the Commission has stated, "[t]he Commission's approval must be predicated upon a public interest evaluation of the proposed sale."[10]

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[9] *In the Matter of the Merger of the Parent Corporations of Qwest Communications Corporation, LCI International Telecom Corp., USLD Communications, Inc., Phoenix Network, Inc., and U S WEST Communications, Inc.,* Docket No. P-3009, 3052, 5096, 421, 3017/PA-99-1192, ORDER ACCEPTING SETTLEMENT AGREEMENTS AND APPROVING MERGE SUBJECT TO CONDITIONS (June 28, 2000) ("*Qwest-US WEST Merger Order)* at p. 4.

[10] *In the Matter of the Joint Petition of Citizens Utilities Company and GTE Corporation for Approval of Citizens' Acquisition of GTE Telephone Properties*, Docket P-5316, 407/PA-99-1239, ORDER APPROVING SALE … AND REQUIRING FILINGS (July 24, 2000) (*Citizens-GTE Merger Order)*, p. 4.

Further, the Commission has found that, in determining whether a proposed transaction is consistent with the public interest, the Commission must perform a balancing test that "weighs the perceived detriments or concerns against the perceived benefits to the public."[11]

Specifically, in its Notice and Order for Hearing in this case, the Commission declared that "[t]he ultimate issue in this case is whether the proposed merger is in the public interest under Minn. Stat §§ 237.23 and 237.74, subd. 12." The Commission further concluded that the public interest determination in this case encompasses the following issues:[12]

a. Whether the post-merger company would have the financial, technical, and managerial resources to enable the Qwest and CenturyLink Operating Companies to continue providing reliable, quality telecommunications services in Minnesota;

b. What impact the transaction would have on Minnesota customers and on competition in the local telecommunications market; and

c. What impact the transaction would have on Commission authority.

Q. WHAT ARE SOME OF THE PUBLIC INTEREST ISSUES THE COMMISSION SHOULD CONSIDER?

A. The Commission's public interest evaluation turns on consideration of the stated goals in section 237.011 that the legislature has directed the Commission to consider as it executes its regulatory duties regarding telecommunications services. Those goals include, among others, "maintaining just and reasonable

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[11] *In Re MCI WorldCom, Inc.* 185 PUR 4th 156, 163 (Minn. PUC Apr. 9, 1998).

[12] *In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink*, Docket No. P-421, et al./PA-10-456, Notice and Order for Hearing (June 15, 2010), p. 2.

rates;" "encouraging fair and reasonable competition for local exchange telephone service in a competitive neutral manner;" "maintaining and improving quality of services;" and "promoting customer choice..."[13]

Q. DO THESE PUBLIC INTEREST CONSIDERATIONS INCLUDE A MERGER'S IMPACT ON COMPETITION?

A. Yes. The legislative considerations in section 237.011 focus heavily on competitive concerns, expressly requiring the Commission to pursue the goals of "encouraging fair and reasonable competition and "promoting customer choice." when executing its regulatory duties, including the duty to ensure that proposed mergers and acquisitions are in the public interest. In fact, the Commission has specifically found that an acquisition's impact on competition is a key public interest consideration:

> [A] key public interest consideration when evaluating a proposed sale is whether it will have a negative impact upon competition in the local market. The Commission has a particular relationship to this public interest concern because the Minnesota Legislature has identified fair and reasonable competition for local exchange telephone service as a priority public interest goal and has given the Commission major responsibilities for promoting that goal.[14]

Q. DOES THIS COMMISSION HAVE THE AUTHORITY TO IMPOSE CONDITIONS, SUCH AS THOSE RECOMMENDED BY MR. GATES AND YOU?

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[13] *See* Minn. Stat. § 237.011; *Qwest-US WEST Merger Order*, pp. 4-5; *Citizens-GTE Merger Order,* pp. 4-5.

[14] *Citizens-GTE Merger Order,* at p. 6.

A. Again, I am not an attorney, but the Commission has clearly recognized its authority to impose merger conditions to ensure that a merger is in the public interest, stating:

> Where necessary, the Commission's public interest authority and extensive telecommunications enforcement experience enables it to impose and enforce certain conditions, as necessary, to tilt the balance and result in a sale that is in the public interest.[15]

Further, in order to ensure that the public interest standard has been met, state commissions have often imposed conditions that minimize threats of harm to the public interest,[16] including threats to competition.[17] These conditions often go beyond the traditional scope of a commission's non-merger docket jurisdiction. Even so, these types of conditions are not only appropriate, but also they are required to satisfy the public interest standard.

For example, in the Oregon PUC's Order approving the Frontier-Verizon merger with conditions, the Oregon PUC imposed several additional conditions in order to "mitigate the risks of the transaction and help meet the 'no harm' public interest standard *required* for our approval."[18] One condition was that Frontier commit to spending a total of $25 million for broadband deployment and enhancement over the following three years.[19] The Oregon PUC has found that it has no

15 *Citizens-GTE Merger Order,* at p. 5.

16 *See e.g. Oregon U S West/Qwest Merger Docket*, p. 5. *See also, Qwest-US WEST Merger Order*, pp. 4-6.

17 *In the Matter of Verizon Communications Inc. and Frontier Communications Corporation,* Order *No. 10-067, p. 6, entered Feb. 24, 2010, in Docket UM 1431 ("Frontier-Verizon Order").*

18 *Frontier-Verizon Order*, at p. 1 (emphasis added).

19 *Id.*, at pp. 1, 15-16, Ex. B. pp. 9-11 (also listing requirements for periodic reports to the Commission, detailing in which wire centers the merged entities would deploy broadband services, and listing specific commitments to particular wire centers).

independent jurisdiction over broadband Internet services.[20] Yet, the Commission properly imposed broadband conditions in the merger context in order to address concerns that Frontier would otherwise insufficiently fund and manage its provision of broadband services after the merger, leaving the public with less access to broadband services than if Frontier and Verizon remained separate entities.[21] The Commission's order also included conditions relating to FiOS video services "provided pursuant to local franchise agreements, rather than pursuant to Commission authority," stating that the "conditions help meet the required standard for approval of the transaction.[22] Accordingly, even where the Commission's authority would otherwise not reach the issue, the statutorily required public interest standard provides the Commission authority to impose conditions that may otherwise be beyond the scope of the Commission's jurisdiction. That is why, in the Frontier-Verizon Order, the Oregon Commission imposed the Broadband conditions upon finding that they "help meet the 'no harm' standard for approval of the transaction."[23] Similarly, other states have not approved mergers without imposing broadband conditions.

Q. ARE THERE OTHER STANDARDS TO CONSIDER IN REVIEWING THE PETITION?

A. Yes. The mandates of the Telecommunications Act of 1996 are also critical in reviewing the proposed merger. Nevertheless, the Petition itself makes only a

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[20] *See Margaret Furlong Designs v. Qwest Corp.,* UCB 31, Order No. 06-012 (Jan. 10, 2006)

[21] *Frontier-Verizon Order*, at p. 15.

[22] *Id.* at p. 17.

[23] *Id.* at p. 16.

vague reference to "…the laws governing interconnection."[24] The Petition and testimony provide no analysis of the Act's requirements or how they will be met under the proposed merger.[25] This lack of information and commitment is a common theme in all the Joint Petitioners' applications and testimony I have reviewed in the various states in which the companies are applying for regulatory approval, and should be a source of great concern for the Commission.

IV. ECONOMICS AND REVIEW OF TELECOM MERGERS

A. Mergers Seek to Increase Private Shareholder Value which May Cause Them to Be at Odds with the Public Interest

Q. IN GENERAL TERMS, WHAT MAY CAUSE FIRMS TO MERGE OR ACQUIRE OTHER FIRMS?

A. The incentives for mergers and acquisitions are manifold but center around the notion that shareholder value can potentially be increased by merging and streamlining the resources of the pre-merger firms. The benefits from the merger may stem from: the ability to lower costs, through increasing the post-merger firm's economies of scale (*e.g.*, allowing it to achieve lower per unit costs) and scope (*e.g.*, increasing the firm's efficiency by being able to offer a broader array of services at larger volumes); capturing synergies associated with merging and streamlining overhead and operational support systems; and/or improving the Merged Company's overall competitiveness and market share by broadening its

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[24] See, Petition at p. 18.

[25] See, for instance, Jones Direct Minnesota at pp. 5 and 12.

product offerings and access to a larger customer base, or otherwise from capitalizing on joint talents and expertise. The notion is that bigger is better.

Of course, these are all stock, theoretical considerations raised in mergers, but it is always a question whether or not these benefits will actually materialize. Furthermore, even on a theoretical level, there are serious doubts about whether such alleged benefits are likely to result from a merger between firms such as those in this transaction, or whether benefits could more likely be achieved by the firms individually, through contractual agreements or simply through endogenous growth.[26]

Q. WHAT IS THE DIFFERENCE BETWEEN A HORIZONTAL AND A VERTICAL MERGER?

A. A horizontal merger is a merger between two firms that offer a comparable set of services in comparable segments of a market or industry. The objective of a horizontal merger is typically to broaden the reach of the firm and to increase its overall market share.

A vertical merger, by contrast, seeks to integrate the operations of an upstream firm with those of a downstream firm to whom it provides, typically, critical inputs. Vertical integration may be motivated, for example, by a desire to leverage the market power the upstream firm has into downstream markets.

[26] For example, see Joseph Farrell and Carl Shapiro, "Scale Economies and Synergies in Horizontal Mergers," *Antitrust Law Journal*, Vol. 68, pages 67 – 710.

While these types of mergers differ conceptually, they both allow the acquiring firm to grow and potentially capture certain economies and synergies in addition to other potential benefits.

Q. WHAT SHOULD BE THE ULTIMATE OBJECTIVE OF A MERGER FROM THE *COMPANY'S* PERSPECTIVE?

A. While a merger may be motivated by a variety of considerations and objectives, including management's personal ambitions, the ultimate objective of a merger from the perspective of the firm's management should be to increase shareholder value – which is also how the management should evaluate its success or failure.[27]

Q. DO MANAGEMENT'S OBJECTIVES TO INCREASE SHAREHOLDER VALUE POTENTIALLY CONFLICT WITH THE COMMISSION'S OBJECTIVE TO PROTECT THE PUBLIC INTEREST AND FURTHER COMPETITION IN MINNESOTA?

A. Yes. Even if we ignore for the moment the possibility that this merger, like many others may go awry, an ILEC's pursuit of profit and increased shareholder value through the acquisition of another ILEC inherently conflicts in many ways with the Commission's mandate to promote the public interest and competition. For example, the public interest is best served by a vibrant and competitive market for telecommunications services; yet it is in the Joint Applicants' interests to strengthen their already dominant market positions in order to realize benefits that

[27] While mergers are at times motivated by other considerations, such as strategic or personal ambitions of the CEO, ultimately, from the firm's perspective, the "numbers" have to work to increase shareholder value. See, for example, Robert G. Eccles, Kersten L. Lanes, and Thomas C. Wilson, "Are You Paying Too Much for that Acquisition," *Harvard Business Review on Mergers and Acquisitions*, 2001, pages 45 - 73.

justify the merger. Given that CLECs rely on CenturyLink's and Qwest's wholesale services to compete with the Joint Applicants, private and public interests diverge. This is why, among other reasons, mergers between ILECs, such as CenturyLink and Qwest, should raise serious concerns about the companies' responsibilities in wholesale markets and the continued viability of retail competition. Specific concerns about how this merger may harm the public interest are discussed in a separate section below.

Q. DO THE FEDERAL TRADE COMMISSION (FTC) AND DEPARTMENT OF JUSTICE (DOJ) REVISED HORIZONTAL MERGER GUIDELINES (2010) (*HMG*) PROVIDE THE COMMISSION WITH GUIDANCE?

A. Yes. While the focus of an FTC or DOJ antitrust review of the proposed merger differs from and is narrower than the Commission's public interest evaluation, the HMG provides useful guidance on how to assess various claims put forth by the merging companies regarding the alleged benefits of the proposed transaction. Specifically, the HMG stresses that "most merger analysis is necessarily predictive, requiring an assessment of what will likely happen if a merger proceeds as compared to what will likely happen if it does not."[28] The HMG then goes on to note that, in a merger analysis, there is no single uniform formula to be applied, but "rather, it is a fact-specific process through which the agencies, guided by their extensive experience, apply a range of analytical tools to the reasonably available and reliable evidence [...]"[29] These observations are

[28] FTC and DOJ, *Horizontal Merger Guidelines* For Public Comment, Released on April 20, 2010, at p. 1.

[29] *Id*.

important because, as discussed in the testimony of Mr. Gates and herein, the applicants have provided insufficient information to conduct a "fact-specific" investigation of the likely outcome of the proposed merger. (As part of the framework for the Commission's predictive analysis, I discuss below a number of previous mergers that subsequently went awry and show that past applicants made claims similar to those made by Qwest and CenturyLink, demonstrating that the mere promise of benefits in no way ensures that benefits will in fact ensue.) For their part, the Joint Applicants' near-total absence of factual analysis is disconcerting, given the far reaching implications of the proposed transaction and its potential impact on a broad array of stakeholders, including CLECs, and the fact that the Commission must ultimately make its public interest judgment based on hard facts provided by the applicants.

Q. WOULD THE APPROVAL OF CENTURYLINK'S AND QWEST'S SHAREHOLDERS SIGNIFY THAT THE MERGER IS IN THE PUBLIC INTEREST?

A. No. Shareholders should consider only how shareholder value will be affected, which revolves mostly around the question of whether it will increase future earnings; obviously, shareholder value is but one component of a much broader and more complex evaluation necessary for a public interest finding. In short, the Commission should not succumb to the belief that the "invisible hand" of the market place will safeguard the public interest in this merger.

B. A Cautionary Tale: Brief Review of Mergers that Went Awry

Q. CAN ANYTHING BE LEARNED BY CONSIDERING THE OUTCOMES OF OTHER RECENT MERGERS AND ACQUISITIONS INVOLVING ILEC OPERATIONS?

A. Yes. The old adage that "those who do not heed the lessons of history are doomed to repeat them" readily applies to regulatory review of ILEC mergers and acquisitions. I believe it is crucial that the Commission consider the proposed Qwest-CenturyLink transaction in light of other, recent mergers and acquisitions. As I shall explain, there are several such cases in which the merging companies' initial high expectations and promised public benefits failed to materialize, in some cases instead leading to financial failure, including Chapter 11 bankruptcies.

Q. WHAT ARE POSSIBLY THE TWO MOST PROMINENT MERGERS AMONG TELECOMMUNICATIONS COMPANIES TO RESULT IN FAILURES?

A. There are two mergers that stand out: the acquisition of MCI by WorldCom in 1998 and the acquisition of US WEST, a BOC, by Qwest in 2000.

Q. WHAT HAPPENED IN THE WORLDCOM-MCI MERGER AND WHAT WENT WRONG?

WorldCom, which had its genesis in LDDS, experienced precipitous growth in the 1990s, fueled largely by a series of acquisitions,[30] culminating in the $37

[30] Among the companies acquired were: Advanced Communications Corp. (1992), Metromedia Communication Corp. (1993), Resurgens Communications Group (1993), IDB Communications

billion acquisition of MCI in 1998. Following the acquisition, the company had to file for Chapter 11 bankruptcy protection in 2002, after having destroyed much of the shareholder value of both WorldCom and MCI. While the reasons for WorldCom's collapse are many, it can be explained in part by the failure to successfully integrate the operations of the acquired companies. As the Bankruptcy Court found:

> Another challenge for WorldCom involved its integration of acquired assets, operations and related customer services. Rapid acquisitions can frustrate or stall integration efforts. Public reports, and our discussions with WorldCom employees, raise significant questions regarding the extent to which WorldCom effectively integrated acquired businesses and operations.[31]

Q. WHAT HAPPENED IN THE US WEST-QWEST MERGER AND WHAT WENT WRONG?

Qwest was founded in 1996 as a largely fiber-based company, installing facilities along railroads of Southern Pacific Railroad to offer mostly high-speed data services. Like WorldCom, Qwest Communications grew aggressively through a series of acquisitions,[32] positioning Qwest not only as a provider of high speed data to corporate customers, but also as a rapidly-growing provider of residential and business long distance services.

Group, Inc (1994), Williams Technology Group, Inc. (1995), and MFS Communications Company (1996).

[31] *Re: WORLDCOM, INC., et al. Debtors*, Chapter 11 Case No. 02-15533 (AJG) Jointly Administered, First Interim Report of Dick Thornburgh, Bankruptcy Court Examiner, November 4, at p. 12.

[32] Qwest acquired such companies as Internet service provider SuperNet in 1997, LCI, a long distance carrier in 1998, and Icon CMT, a web hosting provider, also in 1998.

In 2000, Qwest acquired US WEST. The total value of the transaction at the time was considered approximately $40 billion.[33] About ten years after the merger, Qwest's market capitalization is now approximately $10 billion.[34] This represents a stunning loss in shareholder value.[35]

Q. WHAT LESSIONS CAN BE LEARNED FROM THESE TWO MERGERS IN EVALUATING THE MERGER AT ISSUE IN THIS CASE?

The lesson to be learned from the WorldCom/MCI and Qwest/US WEST mergers is, among others, that an applicant's ability to put together a merger, get Wall Street's approval and shepherd a proposed transaction through the various steps of an approval process, in no way demonstrates an ability to successfully run the post-merger firm. Further, generic claims of "synergies," which, as I will discuss in more detail later in my testimony, invariably accompany all merger proposals, mean little or nothing unless they are adequately substantiated by fact-based analyses – and in the instant Petition they surely are not.

Q. ARE THERE MORE RECENT ILEC MERGERS THAT THE COMMISSION SHOULD PAY PARTICULAR ATTENTION TO WHEN CONSIDERING THE CENTURYLINK-QWEST PETITION?

A. Yes. There are three major ILEC transactions within the past five years that I think offer particularly sobering lessons to the Commission as it considers CenturyLink's proposed acquisition of Qwest. In particular, I am referring to:

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33 Qwest 2000 Annual Report, at p. 1.

34 See Money.cnn.com, Ticker Q.

35 In 2000, Qwest boasted: "Qwest Communications Reports Strong Third Quarter 2000 Financial Results While Successfully Integrating ***$77 Billion*** Company." (Emphasis added.) See http://news.qwest.com/index.php?s=43&item=1571

- **Hawaiian Telcom:** The Carlyle Group's acquisition of Verizon Hawaii (renamed Hawaiian Telcom), followed by Hawaiian Telcom's filing for Chapter 11 bankruptcy protection in 2008;
- **FairPoint:** FairPoint's acquisition of Verizon's operations in northern New England (Maine, New Hampshire, and Vermont), followed by FairPoint's Chapter 11 bankruptcy filing in October 2009; and
- **Frontier:** Frontier Communication's July 2010 acquisition of approximately 4.8 million access lines from Verizon in rural portions of fourteen states, which is giving rise to cut-over problems with back-office and OSS systems reminiscent of the prior two transactions.[36]

As I will demonstrate, the track record of these types of mergers is not good. (Mr. Gates discusses a different set of problems associated with these mergers.)

Q. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES THE PROMISED BENEFITS AND ACTUAL OUTCOMES OF THESE ILEC TRANSACTIONS?

A. Yes. My Exhibit AHA-2, "The Promises vs. Realities of Recent ILEC Mergers and Acquisitions," supplies a summary of the promised benefits and actual outcomes of the Carlyle-Hawaiian Telcom and FairPoint-Verizon transactions. In addition, the Exhibit summarizes the more recent Frontier-Verizon and CenturyTel-Embarq transactions in the same manner, to the extent possible given that integration activities pursuant to these transactions are still on-going, so that their full impacts and outcomes have yet to be realized.

In each case, at the time the transaction was first proposed, the companies involved made numerous claims and assurances concerning the anticipated

[36] Frontier Communications, Fact Sheet dated 5/19/2009, "Frontier Communications to Acquire Verizon Assets, Creating Nation's Largest Pure Rural Communications Services provider," downloaded from Frontier's Investor Relations webpage, http://phx.corporate-ir.net/phoenix.zhtml?c=66508&p=irol-irhome

benefits of their transactions, in their FCC applications, public press releases, and testimony to state PUCs. My Exhibit summarizes those claimed benefits and compares them to the actual outcomes realized to date in the areas of (1) deployment of broadband and other new services, (2) service quality, both retail and wholesale, (3) job creation, and (4) the financial stability and performance of the company post-transaction.

Q. WHAT DOES EXHIBIT AHA-2 SHOW?

A. Exhibit AHA-2 shows the enormous gulf between the anticipated benefits claimed by company management in these types of ILEC transactions, and the ensuing realities. In all cases, company management claimed their proposed transactions would spur accelerated deployment of broadband and other new services, create jobs,[37] improve service quality and/or be seamless to customers, including CLECs relying on wholesale services obtained via OSS, and improve the post-transaction company's financial stability and performance. Unfortunately, as the Exhibit vividly shows, the reality has been far different, particularly for the two earlier transactions (Hawaiian Telcom and FairPoint). Their outcomes included:

- <u>Little or no demonstrated progress in broadband deployment</u>:
  - ➢ After its acquisition by Carlyle, Hawaiian Telcom added only 3,247 net retail broadband lines from 2006 through 3Q 2008;[38]
  - ➢ FairPoint's Chapter 11 reorganization plan includes delays/cut-backs to its broadband deployment commitments, and eliminates a cap on DSL rates

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[37] In the instant proceeding, I am not aware of any claims of job creation made with respect to the CenturyTel-Embarq merger, and in fact as noted in the Exhibit, CenturyLink had cut approximately 1,000 jobs (out of a base of 20,000) by early 2010.

[38] The 3,247 value is the difference between Hawaiian Telcom's total retail broadband lines, as of 9/30/2008, 93,567, and, as of 12/31/2006, 90,320 (source: Hawaiian Telcom, 3Q2008 Form 10-Q at p. 23 and 2007 Form 10-K, at p. 50), respectively.

so that customers may face higher rates; one Commissioner in Maine charged that "FairPoint has used the bankruptcy proceeding as an opportunity to renege on its promises to Maine consumers especially in the area of broadband build out."[39]

- Severe declines in retail and wholesale service quality:
  - For Hawaiian Telephone, "very significant slow-downs in call answer and handling times in its customer contact centers and errors in its billing…;"[40]
  - For FairPoint, triggering the maximum payment under Vermont's Retail Service Quality Plan in 2009, and widespread disruptions to wholesale customers due to OSS systems failures, order fall-outs, and manual processing work-arounds;
- Net job losses rather than gains:
  - Hawaiian Telephone's employment level had fallen to approximately 1450 by March 2010, a 15% decline from its pre-sale level of 1700 employees;[41]
  - FairPoint's Chapter 11 reorganization plan defers previously-negotiated raises in union contracts, and creates a task force to cut operating expenses by millions of dollars.[42]
- Financial weakness and instability:
  - Hawaiian Telcom: Chapter 11 bankruptcy filing, December 2008; reported annual rate of return as of June 2009: ─29.3%;
  - FairPoint: Chapter 11 bankruptcy filing, October 2009; VT Public Service Board, "FairPoint's actual performance throughout 2008 and 2009 turned out to be worse than the Board's most pessimistic assumptions."[43]

Q. WHAT KIND OF OUTCOMES DO THE FRONTIER-VERIZON AND CENTURYTEL-EMBARQ TRANSACTIONS APPEAR TO BE HAVING?

A. The Frontier-Verizon and CenturyTel-Embarq outcomes are largely pending because those transactions are so recent, but the preliminary indications are also

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39 Dissent of Commissioner Viafades, MPUC Order 7/6/10.

40 Hawaii PUC Annual Report 2008-2009, at p. 58.

41 See Hawaiian Telcom Holdco, Inc. Form 10-A, filed 5/26/10, at p. 12 and *Honolulu Star-Bulletin, "Hawaiian Telcom Gets CEO."* 10/14/04.

42 Nashua Telegraph 2/9/10.

43 VT PSB Order 6/28/10 at p. 58.

troubling. As noted in my Exhibit AHA-2, Frontier's integration of the former Verizon exchanges has been marred by recent wholesale OSS failures, ordering delays, under-staffed Access Order centers, and trouble report backlogs. These problems are documented in detail in the testimony of Mr. Gates. Already, they appear to belie Frontier's pledge that "this transaction will be seamless for retail and wholesale customers."[44]

For its part, CenturyLink portrays its ongoing integration of Embarq's ILEC operations in 18 states as "highly successful"[45] and "on track"[46] or even "ahead of schedule"[47] relative to some systems integration activities, but here again there are signs of strain.

As Mr. Gates shows in his direct testimony, the CLECs tw telecom and Socket Telecom have been dealing with EASE (OSS) system failures in the legacy Embarq territories since late 2009.

Q. ARE CENTURYLINK AND QWEST NOW MAKING THE SAME SORTS OF CLAIMS CONCERNING THE FUTURE BENEFITS FROM THE PROPOSED TRANSACTION AS THESE OTHER COMPANIES DID?

A. Yes. When I consider the proposed CenturyLink-Qwest merger in this context, what is particularly troubling to me is that so many of the promises and assurances that CenturyLink and Qwest are making now to secure their merger

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[44] Frontier-Verizon FCC Application, Exhibit 1 (description of the Transaction and Public Interest Statement.), at p. 4.

[45] FCC WC Docket No. 10-110, Reply Comments of CenturyLink, Inc. and Qwest Communications International, Inc., filed July 27, 2010, at p. 10.

[46] *Id*, at p. 9.

[47] FCC WC Docket No. 10-110, Reply Comments of CenturyLink, Inc. and Qwest Communications International, Inc., filed July 27, 2010, Exhibit (Declaration of William E. Cheek), at ¶ 2.

are highly similar to those made to regulators by the prior companies, before their transactions' failures. Compare for example, the following claims:

- Claims of a strong track record of successful telecommunications acquisitions:
  - Carlyle Group: "Carlyle has a track record of successful telecommunications investments…"
  - FairPoint: "FairPoint has long-term experience in the telecommunications industry. In fact, FairPoint has been acquiring telecommunications companies since 1993…"[48]
  - Frontier: "Frontier has a strong record of successfully integrating acquisitions…"

    CenturyLink-Qwest: *"CenturyLink's management team has some of the longest and most successful tenure in the industry with a proven track record of successful mergers and acquisitions."*[49]

- Claims that proposed transaction will accelerate broadband deployment:
  - Hawaiian Telcom: "In short order we will offer new services to our customers, including expanded broadband..."[50]
  - "FairPoint plans to increase broadband availability from current levels in Maine, New Hampshire, and Vermont within twelve months after the completion of the merger…"[51]
  - "Frontier believes that… it can dramatically accelerate broadband penetration in these new markets over time."[52]

    CenturyLink-Qwest: *"the transaction will help to accelerate deployment of broadband services in unserved and underserved areas for both residential and business customers."*[53]

- Claims that transaction will be seamless and non-disruptive to customers:

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[48] FairPoint-Verizon FCC Application, at p. 17.

[49] CenturyLink-Qwest's FCC Application, "Application For Consent To Transfer Control," filed May 10, 2010, at p. 10 ("CenturyLink-Qwest FCC Application").

[50] Carlyle Press Rel. 5/21/04

[51] FairPoint-Verizon FCC Application, at p. 18.

[52] Frontier-Verizon FCC Application, Exhibit 1 (Description of the Transaction and Public Interest Statement), at p. 3.

[53] CenturyLink-Qwest FCC Application, at p. 2.

- ➢ FairPoint: "...will enhance service quality and promote competition…"[54]
- ➢ Frontier: "this transaction will be seamless for retail and wholesale customers"[55]

  <u>CenturyLink-Qwest:</u> *"The merger will not disrupt service to any retail or wholesale customers…"*[56]

- <u>Claims that transaction will improve financial strength and stability</u>:
  - ➢ FairPoint: "the proposed transaction will … improv[e] its overall financial flexibility and stability"[57]
  - ➢ Frontier: "the transaction will transform Frontier by strengthening its balance sheet."[58]

    <u>CenturyLink-Qwest:</u> *"the transaction will… create a service provider with improved financial strength and the financial f1exibility to weather the impacts of changing marketplace dynamics…"*[59]

Q. CENTURYLINK PROJECTS THAT IT WILL REAP $625 MILLION IN ANNUAL OPERATING EXPENSE AND CAPITAL COST SYNERGIES FROM 3-5 YEARS AFTER THE MERGER CLOSES. WERE HAWAIIAN TELCOM AND FAIRPOINT ABLE TO ACHIEVE THE SYNERGIES THEY ORIGINALLY PROJECTED IN CONNECTION WITH THEIR MERGER/ACQUISITION TRANSACTIONS?

A. No, they were not. In the Hawaiian Telcom case, I am not aware of any specific quantification of transaction synergies made by the parties at the time of their application for regulatory approvals. However, Carlyle did tell the Hawaii PUC

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54 FairPoint-Verizon FCC Application, at p. 18.

55 Frontier-Verizon FCC Application, Exhibit 1 (Description of the Transaction and Public Interest Statement), at p. 4.

56 CenturyLink-Qwest FCC Application, at p. 37.

57 FairPoint-Verizon FCC Application, at p. 19.

58 Frontier-Verizon FCC Application, Exhibit 1 (Description of the Transaction and Public Interest Statement), at p. 4

59 CenturyLink-Qwest FCC Application, at p. 2.

that it expected to realize operational efficiencies by creating new back office systems located in Hawaii, to replace Verizon's centralized, legacy systems. As the Hawaii PUC stated at the time the transaction was approved:

> In re-establishing these functions, Carlyle plans to replace Verizon's numerous legacy systems with updated and flexible application systems. Carlyle specifically represents that it will achieve increased economies of scale and improved operating efficiencies from replacing multiple and duplicative systems with a single application.[60]

As Mr. Gates describes in depth in his direct testimony, the build-out of these new systems went seriously awry, and contributed to the financial downfall of the company. Instead of producing synergistic operating efficiencies and cost reductions, development delays and failures in the new systems caused Hawaiian Telcom to incur millions of dollars of additional, unanticipated operating expenses. The company's Form 10-Q SEC filing for the third quarter of 2006 documents over $33 million in such incremental expenses for just the first nine months of 2006, including $22.3 million paid to Verizon to continue using its systems after the planned cutover date, and another $11.3 million for "[t]hird-party provider services and other services required as a result of the lack of full functionality of back-office and IT systems."[61] The Form 10-Q filing explains that:

> Because BearingPoint was unable to deliver the expected full system functionality by the April 1, 2006 cutover date and has continued to be unable to deliver full functionality, it has been necessary for us to incur significant incremental expenses to retain third-party service

[60] In the Matter of the Application of Paradise Mergersub, Inc., GTE Corporation, Verizon Hawaii Inc. Bell Atlantic Communications, Inc. and Verizon Select Services Inc. for Approval of a Merger Transaction and Related Matters, Hawaii PUC Docket No. 04-0140, Decision and Order No. 21696, March 16, 2005, at p. 48.

[61] Hawaiian Telcom Communications, Inc. Form 10-Q, filed November 14, 2006, at p. 26.

> providers to provide call center services and other manual processing services in order to operate our business. To help remediate deficiencies we engaged the services of an international strategic partner with expertise in general computer controls and change management as well as specific expertise with information technology process controls. In addition to the costs of third-party service providers, we also incurred additional internal labor costs, in the form of diversion from other efforts as well as overtime pay.[62]

The filing goes on to say that the company expected to continue to incur significant incremental systems-related costs through the last quarter of 2006 and on into fiscal year 2007.[63]

Q. DID FAIRPOINT MANAGE TO ACHIEVE ITS CLAIMED TRANSACTION SYNERGIES?

A. No. Like Hawaiian Telcom, FairPoint also fell far short of its initial synergy projections for the Verizon transaction, which were largely driven by expected efficiency improvements in back-office and OSS systems. In an April 2007 filing with the SEC, FairPoint stated that "FairPoint estimates that within six months following the end of this transition period, which is expected to occur in 2008, the combined company will realize net costs savings on an annual basis of between $60 and $75 million from internalizing these functions or obtaining these services from third-party providers."[64] In reality, FairPoint experienced severe operational difficulties and cost over-runs during its post-transaction efforts to integrate the legacy Verizon exchanges into its back-office and OSS systems, as Mr. Gates

[62] *Id.*, at p. 26.

[63] *Id.* at p. 26. Note that the company's Form 10-K filing for year 2007 does not provide a similar quantification of systems-related incremental expenses, and the SEC's "EDGAR" filings database does not list a year 2008 Form 10-K for the company, presumably because of its Chapter 11 bankruptcy that year.

[64] FairPoint Communications, Inc., Form S-4, filed April 3, 2007, at p. 14.

documents in his direct testimony. By the time the company filed its Form 10-K for 2009, it was forced to admit that:

> Because of these Cutover issues, during the year ended December 31, 2009, we incurred $28.8 million of incremental expenses in order to operate our business, including third-party contractor costs and internal labor costs in the form of overtime pay. The Cutover issues also required significant staff and senior management attention, diverting their focus from other efforts.[65]

Once again, as in the Hawaiian Telcom case, the fact that forecasted operating efficiencies and synergies failed to materialize, and instead were replaced by substantial, unanticipated expense increases, contributed heavily to FairPoint's financial distress and subsequent filing for Chapter 11 bankruptcy protection.

Q. DOES FRONTIER APPEAR TO BE ON TRACK TO REALIZE THE SYNERGIES IT CLAIMED WILL BE PRODUCED BY ITS RECENT ACQUISITION OF VERIZON EXCHANGES?

A. No, it does not, judging from the most recently-available public information that I have been able to review. In their joint Application to the FCC, Frontier and Verizon stated "When fully implemented, Frontier expects to yield annual operating expense savings of $500 million" from the transaction.[66] However, Frontier's Form 10-Q filed May 16, 2010, already admits to a major unanticipated cost increase with respect to systems integration that detracts from those savings:

> While we anticipate that certain expenses will be incurred, such expenses are difficult to estimate accurately, and may exceed current estimates. For example, our estimate of expected 2010 capital expenditures related to integration activities has recently increased

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[65] FairPoint Communications, Inc., Form 10-K, filed May 27, 2010, at p. 16.

[66] Verizon Communications Inc. and Frontier Communications Corp., *Consolidated Application for Transfer of Control and Assignment of International and Domestic Section 214 Authority*, May 28, 2009, Exhibit 1 (Description of the Transaction and Public Interest Statement), at p. 3.

> from $75 million to $180 million, attributable in large part to costs to be incurred in connection with third-party software licenses necessary to operate the Spinco business after the closing of the merger. Accordingly, the benefits from the merger may be offset by costs incurred or delays in integrating the companies.[67]

Q. WHAT CONCLUSIONS DO YOU REACH BASED ON YOUR ASSESSMENT OF THESE PRIOR ILEC MERGER AND ACQUISITION EXPERIENCES?

A. Based on my overall assessment of the prior ILEC merger and acquisition experiences set forth above, my conclusions are as follows:

- Mergers and acquisitions involving the transfer and integration of ILEC local telephone operations carry a high degree of risk of failure, even when implemented by highly-experienced management teams and well-financed companies;
- When pursuing these types of transactions, company management tends to overstate the anticipated benefits and understate the risks and uncertainties;
- The integration of a Bell Operating Company's ILEC operations, in particular, can prove to be extremely expensive and difficult, and integration failures can be so costly as to not only eliminate the forecasted transaction cost savings and other synergies, but to place the post-transaction company under severe financial pressure.

Taken as a whole, I believe that these experiences demonstrate that regulators must be extremely skeptical of management's pre-transaction claims and assurances, and cognizant that such transactions involve significant uncertainties and risks. From a public interest standpoint, those risks simply may not be worth accepting, particularly because, as discussed previously, the risks and gains are unevenly divided between shareholders and the broader

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[67] Frontier Communications, Inc., Form 10-Q, filed May 16, 2010, at p. 56

public interest, including captive customers, such as CLECs. The economic viability of CLECs may be threatened if things go awry, but unlike shareholders, CLECs stand to gain little, if anything, if the merger is successful is successful from a shareholder standpoint. At a minimum, this asymmetric division of risks must be mitigated by establishing concrete conditions, with meaningful consequences for nonperformance, prior to the transaction's regulatory approval.

V. A CENTURYLINK/QWEST MERGER IS LIKELY TO HARM THE PUBLIC INTEREST

A. Overview

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE PROPOSED MERGER BETWEEN CENTURYLINK AND QWEST?

A. In this proceeding, CenturyLink, formerly CenturyTel, seeks approval for the acquisition of Qwest Communications. The merger entails a stock swap of $10.6 billion. CenturyLink will also assume approximately $12 billion in Qwest debt. The overall value of the merger is about $22 billion. The Merged Company will operate in 37 states, and serve some 5 million broadband customers and 17 million phone lines.

Q. DOES THIS REPRESENT AN EXTRAORDINARY GROWTH FOR CENTURYTEL?

A. Yes. If the proposed transaction is consummated, CenturyTel will have grown from a small rural company with about 1.3 million lines to a nationwide company of about 17 million lines – over the course of a mere three years. The table below, presented previously in the introduction, summarizes CenturyTel's growth:

	Year	Access Lines[68]	% of Post-Merger Total
CenturyTel	2009	1,300,000	8%
Embarq	2009	5,700,000	34%
Qwest	2010	10,000,000	59%
Total		**17,000,000**	**100%**

As discussed previously, it is important to note that this growth is not the result of superior product offerings and customer growth, but rather achieved through putting together a number of companies that were struggling[69] to hold their own in rapidly changing telecom retail markets.[70]

Q. DOES THE PROPOSED MERGER ENTAIL ANY SIGNIFICANT BENEFITS OF VERTICAL INTEGRATION?

A. For the most part, this is a horizontal merger. As noted, the proposed merger seeks to integrate the operations of CenturyLink and Qwest. An evaluation of this merger is further complicated by CenturyLink's ongoing and, as of yet, incomplete efforts to integrate the recently acquired Embarq. Therefore, assessing the synergies claimed with respect to CenturyLink's acquisition of

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68 Line counts are taken from CenturyLink's testimony. See Direct Testimony of Duane Ring, filed June 14, 2010 ("Ring Minnesota Direct"), at pp. 5-6, and Exhibit DR 1, and Direct Testimony of Mark A. Gast, filed June 14, 2010 ("Gast Minnesota Direct"), at p. 5.

69 Both companies, for example, continue to experience access line losses. For CenturyLink see http://ir.centurylink.com/phoenix.zhtml?c=112635&p=irol-newsArticle_Print&ID=1422603&highlight; for Qwest, see, 2010 Quarterly Earnings at http://investor.qwest.com/qtrlyearnings

70 This does not mean that the companies are not dominant in wholesale markets and continue to control the wholesale relationship with CLECs that require access to the Join Applicant's network.

Qwest involves considerations of integrating the operations of three incumbent LECs. That is, in essence, this case concerns a predominantly *horizontal* merger across the geographically separate serving areas of three incumbent LECs, CenturyTel, Embarq and Qwest, all three of which are generally in the same line of business in different service areas.

Q. DOES THE FACT THAT CENTURYLINK IS SEEKING TO PUT TOGETHER THE OPERATIONS OF THREE ILECS LIMIT THE EXTENT TO WHICH SYNERGIES CAN BE REALIZED?

A. Yes. Because the proposed transaction would involve the integration of three ILECs operating in different service areas, the benefits from the potential merger are necessarily limited, which may explain why the Joint Petitioners refer to the alleged benefits in vague terms, like "capitalizing on," "leveraging," "extending," and so forth. Those vague assertions leave one wondering why, under the right management, such benefits could not be achieved by each of the firms individually.

While mergers often fail to enhance shareholder value, there are types of mergers and acquisitions that tend to expand a company's abilities and service offerings. For example, when Microsoft acquired Forethought, which had developed a presentation program, it allowed Microsoft to expand its suite of software programs to include Microsoft PowerPoint, and to eventually market a powerful bundle of programs, Microsoft Office, to students and business users. Similarly, Microsoft's acquisition of Visio Corporation, allowed it to further expand its product line by integrating Microsoft Visio. I am not asserting that all of

Microsoft's dozens of acquisitions have been successes; rather, I am illustrating an essential difference between these acquisitions by Microsoft and CenturyLink's acquisition of Qwest. While the Microsoft acquisitions are a clear example of how an acquisition adds to a company skills and products that were not previously present, the CenturyLink-Qwest merger is an example, for the most part, of adding more of the same in the hope that something better will emerge, under the motto "Bigger is Better."

It is unclear how putting together three ILECs, with a shrinking landline base, is going to result in a sustained turnaround, let alone substantial merger benefits. CenturyLink's claims of merger benefits notwithstanding, there is little inherently new or novel in the proposed combination of these ILECs, with largely overlapping business models.

Q. DOES THE MERGER APPEAR TO ENHANCE THE FINANCIAL POSITION OF THE FIRMS?

A. No, not really. Looking at how financial markets seem to be responding to the proposed merger, there hardly seems to be a flurry of excitement; in fact, rating agencies have recognized the increased riskiness of the post-merger firm.[71] Also, using a traditional measure of the weighted average cost of capital ("WACC"), it is not clear how the Merged Company is better positioned to attract capital.[72] In fact, given that the Merged Company would be no less risky and that CenturyLink

[71] See the April 2010 ratings reports for CenturyLink issued by Moody's, Standard and Poor's, and Morgan Stanley, reproduced in my Exhibit AHA-6. These were provided by CenturyLink as attachments to the May 24, 2010 Direct Testimony of Jeff Glover in the Iowa Utilities Board merger review proceeding, Docket No. SPU-2010-0006.

[72] See CenturyLink's and Qwest's Response to Staff Data Request No. 3, Oregon, Docket No. UM 1484, showing an increase in the post-merger weighted average cost of capital.

would be assuming Qwest's massive debt load, there is reason to conclude that financial markets will be less (rather than more) forthcoming in financing CenturyLink's future network expansions.

B. Vertical Effects

Q. YOU NOTED THAT THE PROPOSED MERGER DOES NOT, ON ITS FACE, REVEAL COMPLEMENTARY SKILLS AND PRODUCTS. DOES THIS SUGGEST THAT THE DRIVE TO ACHIEVE MERGER BENEFITS AND SYNERGIES WOULD INVARIABLY PIT CENTURYLINK AGAINST ITS WHOLESALE CLIENTS, SUCH AS CLECS?

A. Yes. To justify the merger and the associated costs of integration, CenturyLink is promising regulators and shareholders merger benefits estimated at about $625 million over a period of three to five years.[73] As noted, the premerger companies are struggling to hold their own in changing telecom retail markets and it is not clear that the merger will soon, if ever, generate revenues and profits to recoup the upfront costs of integration. This raises concerns about cost cutting measures that may negatively impact wholesale services.

Trimming wholesale costs not only saves money on services that are not subject to significant competition; it does so without the likelihood of revenue repercussions: *i.e.*, the cost savings directly improve the bottom line. That is, there are added incentives to cut costs in segments of the companies' operations that are not subject to competitive pressures: most notably, the wholesale business

[73] See Gast Minnesota Direct, at p. 6.

charged with meeting the Section 251 and Section 271 obligations under the Telecommunications Act of 1996. In sum, this dynamic places post-merger CenturyLink at odds with captive CLEC wholesale customers.

Q. SHOULD THE COMMISSION CONSIDER THE IMPACT OF THE MERGER ON CLECS AND COMPETITION?

A. Yes. As discussed previously, a public interest review requires consideration of how the merger is likely to impact CLECs and competition. In fact, the Commission has recognized this as a key consideration. The public interest would be harmed if the competitive landscape becomes distorted by significant cost cutting that causes a deterioration in wholesale service provisioning. Showing that these concerns are not idle, Mr. Gates discusses in more detail the potentially harmful impact of the merger on the Merged Company's provisioning and how it could seriously impair – *as mergers have elsewhere* – the viability of competitors.

Q. HAS THE FCC NOTED THE IMPORTANCE OF CONSIDERING THE IMPACT ON WHOLESALE SERVICES AND COMPETITORS?

A. Yes. Part of the FCC's analytical framework in reviewing mergers is to look not only at the horizontal effects of a merger but also the vertical effects, related to the post-merger impact on wholesale markets. Recognizing the potential harm a merger may cause to competitors and competition itself, the FCC notes:

> [w]e need to consider the vertical effects of the merger – specifically, whether the merged entity will have an *increased incentive* or *ability*

> to injure competitors by raising the cost of, or discriminating in the provision of, inputs sold to competitors.[74] (Emphasis added.)

As discussed above, it appears that CenturyLink may have an increased incentive as well as an increased ability to negatively impact its competitors due to the larger scope of its operations.

Q. DOES THIS RAISE CONCERNS NOT JUST WITH RESPECT TO UNES BUT ALSO SPECIAL ACCESS SERVICES?

A. Yes. Local competition remains critically dependent on the availability of UNEs, interconnection and special access services at reasonable rates and terms. The proposed merger may negatively impact the provision of special access services, which are already being provisioned at unreasonably high rates and on terms and conditions that are hampering competitors.[75] In fact, in view of these concerns, the FCC has recently decided to revisit its regulations of special access services.[76] This merger may further unsettle special access markets.

Q. ARE THESE CONCERNS ESPECIALLY IMPORTANT GIVEN THE SUBSTANTIAL AMOUNT OF DEBT CENTURYLINK WILL BE ASSUMING BY ABSORBING QWEST?

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[74] In the Matter of A&T Inc. and BellSouth Corporation Application for Transfer of Control, Memorandum Opinion and Order, WC Docket No. 06-74, Para. 23.

[75] See for example, United States Government Accountability Office, Report to the Chairman, Committee on Government Reform, House of Representatives, *Telecommunications: FCC Needs to Improve Its Ability to Monitor and Determine the Extent of Competition in Dedicated Access Services*, November 2006. ("*GAO Report*").

[76] *In the Matter of Special Access Rates for Price Cap Local Exchange Carriers AT&T Corp. Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services,* WC Docket No. 05-25, RM-10593. The FCC conducted a workshop on revising special access pricing on July 19, 2010.

A. Yes. CenturyLink is taking on an enormous amount of debt and other risks, so much so, that it is negatively impacting its credit rating.[77] This draws into question the claim that the Merged Company would be a financially stronger entity. Moreover, to deal with this debt, and to placate shareholders and financial markets, CenturyLink has stated that it will use its free cash flow to pay down this debt.[78] Given the dearth of information the Joint Petitioners have provided to support the alleged merger savings, CenturyLink's stated intentions to pay off its debt raises still more questions about its ability to provide and maintain quality wholesale services and OSS to CLECs, not just for its own pre-merger operations but especially for Qwest's, which are subject to Section 271 obligations. Again, when asked to provide details supporting its projected merger savings, the Joint Petitioners respond that those savings have not been calculated at a detailed level or have not yet been developed.[79] Circular answers like "[t]he combined companies regulated entities will benefit from synergies post-merger in the form of lower costs to the extent synergies are achieved,"[80] are not reassuring, much less credible evidence on which the Commission can base findings that the transaction is in the public interest. The absence of and refusal to provide

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[77] See April 2010 ratings reports for CenturyLink by Moody's, Standard and Poor, and Morgan Stanley, as reproduced in my Exhibit AHA-6. As Moody's notes in its report:

> The negative rating outlook for CenturyTel reflects the considerable execution risks in integrating a sizeable company so soon after another large acquisition (Embarq in July 2009) while confronting the challenges of a secular decline in the wireline industry. The negative outlook also considers the possibility that the Company may not realize planned synergies in a timely manner, especially if competitive intensity increases.

[78] See, for example, Gast Minnesota Direct, at p. 11.

[79] See my Exhibit AHA-4 at p. 7; see also, for *e.g.*, CenturyLink's Response to OCA Set 1, Number 13F ("Synergies were estimated at the total enterprise level only and not by entity or by state"); and 6/29/10 Updated Response to OCA Set 1, Number 13F ("No estimate of synergies by Post Merger entity has been conducted.").

[80] CenturyLink Response to Integra Minnesota Data Request Set 2, #141.

anything approaching a detailed analysis of the Joint Applicants' projected merger savings leaves unaddressed the required comparison with the profound risks posed by this transaction.

In sum, a major concern is that, under the pressure of its debt load, the promises of merger savings to shareholders and regulators, and significant integration costs, CenturyLink will be forced to cut costs when integrating the two companies, leading to a degradation of services to wholesale customers and harm to competition. Worse, of course, is the possibility that this merger could fail as so many have, causing upheaval in wholesale markets and impairing retail competition just when consumers need the benefits of competition most.

Q. DOES MR. GATES DISCUSS A NUMBER OF MERGER CONDITIONS THAT COULD SERVE TO ADDRESS CONCERNS ABOUT VERTICAL EFFECTS?

A. Yes. As the FCC noted in previous mergers, economically efficient access by CLECs to the ILECs' network elements serves to constrain the ILECs' ability to exploit market power in wholesale markets to the detriment of competition in downstream, retail markets.[81] In view of this, it is of paramount importance that the Commission take action to ensure reliable, nondiscriminatory access to the post-merger ILEC's wholesale network elements and services, including action that safeguards the wholesale ordering and provisioning processes currently in place. Mr. Gates discusses conditions that serve this important purpose.

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[81] For example, see *In the Matter of AT&T Inc. and BellSouth Corporation Application for Transfer of Control*, WC Docket No. 06-74, Memorandum Opinion and Order, December 31, 2006, at Para. 60.

C. Horizontal Effects

Q. IN ADDITION TO THE POTENTIAL HARM FROM VERTICAL EFFECTS, IS THE MERGER LIKELY TO CAUSE HARM DUE TO HORIZONTAL EFFECTS?

A. Yes. A merger of CenturyLink and Qwest reduces competition in areas and for services in which the companies compete. While, for the most part, the companies operate in their own separate service areas, there are some instances in which they do compete. Cleary, a merger would eliminate this competition, and in doing so harm the public interest.

For example, as is evident from CenturyLink's own testimony, the companies serve large numbers of exchanges that are adjacent. As is increasingly common, ILECs often set up CLEC subsidiaries through which they compete in adjacent exchanges. For example, CenturyLink operates as a CLEC in Minneapolis in competition with Qwest.[82] The merger will eliminate any incentives for this type of competition between the two companies. The harm may, in fact, be larger than meets the eye in the sense that it eliminates not just actual instances of such competition but also *potential* ones.

Q. IS THE ELIMINATION OF SUCH COMPETITION AND POTENTIAL COMPETITION IN LOCAL MARKETS TROUBLING IN LIGHT OF THE FACT THAT LARGE SEGMENTS OF LOCAL EXCHANGE MARKETS STILL LACK SIGNIFICANT COMPETITION?

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[82] Http://www.centurylink.com/Pages/AboutUs/CompanyInformation/Regulatory/tariffLibrary.jsp
; jsessionid=055C224C462B5CB0FDF05EF67BB97A646E4E4AE78F.dotcomprd19

A. Yes. The areas in which CenturyLink and Qwest are potential competitors are often largely rural and populated by captive ratepayers with few alternative providers of local exchange service. Elimination of potential competition in those areas is therefore especially troubling.

E. Uncertainty and Harm Will Result If Merger Is Approved As Filed

Q. HAS CENTURYLINK SUBSTANTIATED ITS CLAIMS ABOUT THE TRANSACTION CAUSING NO HARM?

A. No. The basis for CenturyLink's claim that the proposed transaction will do no harm is its repeated statements that there will be no "immediate" changes made following the merger. For instance, CenturyLink states:

> "***Immediately*** upon completion of the Transaction, end-user and wholesale customers will continue to receive service from the same carrier, at the same rates, terms and conditions and under the same tariffs, price plans, interconnection agreements, and other regulatory obligations as ***immediately*** prior to the Transaction; as such, the Transaction will be transparent to the customers."[83]

What is important is what this statement does *not* include. Specifically, it does not state how long customers will continue to receive service under the same rates, terms and conditions. Indeed, the footnote that follows the above statement is very disconcerting:

> In view of the current rapidly changing communications market, any provider, including post-Transaction CenturyLink, must constantly review its pricing strategy and product mix to respond to marketplace and consumer demands. While rates, terms and conditions will be the same immediately after the Transaction as

[83] Petition, at p. 6 (emphasis added). See also, Direct Testimony of John Jones, filed June 14, 2010 ("Jones Minnesota Direct"), at p 5.

> immediately before the Transaction, ***prices and product mixes necessarily will change over time as marketplace, technology, and business demands dictate.*** The affected entities will make such changes only following full compliance with all applicable rules and laws. (Emphasis added.)

A fair reading of the Joint Petitioners' Petition and testimony indicates that changes will indeed take place and there are no specifics about what those changes might be or how and when they might be made.

Q. DO THE JOINT APPLICANTS' REPRESENTATIONS REGARDING TRANSPARENCY SATISFY THE PUBLIC INTEREST STANDARD?

A. No. The Joint Applicants' vague and limited representations are meaningless, and certainly fail to demonstrate that the public interest will be protected. Obviously, CenturyLink could implement changes within months, weeks, or even days after closing the transaction and still purport to have made no "immediate" changes. For example, shortly after the transaction closes, the Merged Company could implement layoffs[84] or require that CLECs re-negotiate all "evergreen" ICAs using CenturyLink's template ICA or attempt to change Qwest's OSS. The Commission's merger approval authority under Minnesota law is intended to ensure that mergers are in the public interest. This important authority certainly does not contemplate approval of a merger based on the vague, limited assurances offered by the Joint Applicants. The bottom line (and the reason why the proposed transaction is of such concern to CLECs) is that the proposed merger

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[84] According to Timothy Donovan, president of Local 7200 of the Communications Workers of America, based in Minneapolis, about 6,000 workers are likely to lose their jobs. See, "CenturyTel-Qwest deal is a rural double-down," *Star Tribune*, April 22, 2010. http://www.startribune.com/business/91876019.html

provides absolutely no certainty for wholesale (or retail) customers and the Joint Applicants have provided no meaningful assurance that the transaction will not harm wholesale customers in the Qwest or CenturyLink territories.

Q. GIVEN CENTURYLINK'S CLAIM OF *BUSINESS AS USUAL* "IMMEDIATELY" FOLLOWING THE TRANSACTION, WHY DO YOU BELIEVE THAT CHANGES WILL BE MADE?

A. Because CenturyLink has stated that changes are coming. For example, CenturyLink's witness Mr. Gast states:

> There will be no immediate changes to Qwest's or CenturyLink's Operational Support Systems. The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, however, so ***changes likely will eventually occur.*** Any changes will occur only after a thorough and ***methodical review of both companies' systems and processes to determine the best system to be used*** on a go-forward basis from ***both a combined company and a wholesale customer perspective.***[85]

Though CenturyLink has put CLECs on notice to expect changes, CenturyLink has provided no detail about what will change, when it will change or how CenturyLink will determine which is the "best system"[86] to use. This is

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[85] Jones Minnesota Direct, at pp. 13-14 (emphasis added). See also, CenturyLink Form S-4/A, July 16, 2010, at p. 16 ("There are a large number of systems that must be integrated, including, billing, management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance.")

[86] To my knowledge, CenturyLink has not provided any substantive details about the "methodical review" or what it means to perform the review from "both a combined company and a wholesale customer perspective." When asked about this in discovery, CenturyLink provided little additional detail, other than to say that "[i]t has not been determined whether third-party testing will be included in the assessment process." CenturyLink Response to Integra Minnesota Data Request Set 2, No. 49-a. In a nutshell, CenturyLink's response is that it will evaluate the different systems and processes, take input from interested CLECs, and then base its decision on "operational efficiencies for the Company [CenturyLink], in general." CenturyLink Response to Integra Minnesota Data Request Set 2, No. 49-b. If CenturyLink is truly concerned about the "wholesale customer perspective," then CenturyLink will not replace Qwest's existing OSS post-transaction. As evidenced by the CLEC proposed

particularly problematic when it comes to OSS because only Qwest's existing systems (*i.e.*, not CenturyLink's existing OSS) have been tested under a Section 271 review.

Q. CENTURYLINK GOES EVEN FURTHER AND CLAIMS THAT THERE ARE NO "POTENTIAL HARMS THAT COULD RESULT FROM THE MERGER."[87] IS THIS TRUE?

A. No. As discussed previously, this merger poses a substantial risk of harm to CLECs and competition based on (1) the nature and history of mergers such as this; (2) the prospect of cuts aimed at achieving the enormous synergies claimed by the Joint Petitioners; and (3) the inherent competitive disincentive to providing quality wholesale services to carriers with whom the Merged Company will compete. The potential for substantial harm is further illustrated by the bankruptcies and system meltdowns that have transpired in the wake of recent mergers. Contrary to CenturyLink's claim, there ***are*** unquestionably "potential harms that could result from the merger."

For instance, despite CenturyLink's best efforts, if it attempts to integrate any OSS or other systems from the CenturyLink region to Qwest's region and such an attempt fails (like in the case of FairPoint), CLECs would likely suffer substantial harm. As another example, the Joint Petitioners' projected synergies and one-time integration costs pose a serious threat to the public interest in at least two respects. First, the pressure to achieve their estimated $625 million in synergies

conditions, it is clearly the CLEC's perspective that Qwest's existing OSS is preferable to existing CenturyLink OSS.

[87] Jones Minnesota Direct, at p. 12 (emphasis added).

may drive cuts or inattention to the provision of quality wholesale services, including OSS used to support those services. Second, failure to achieve its estimated synergies or higher than expected integration costs could seriously impede the Merged Company's ability to pay down its debt, attract capital and make the investments necessary to ensure adequate service. The free cash flow that CenturyLink claims it will use to reduce debt and invest in its network is based on its estimated $625 million in operating and capital synergies, along with its estimated $650-$800 million in one-time operating costs and $150-$200 million in one-time capital costs.[88] However, if CenturyLink fails to achieve those synergies or if its integration costs significantly exceed the estimates (despite CenturyLink's best efforts to achieve these targets), its ability to pay down debt will be diminished, thereby leaving the merged company highly leveraged and potentially unable to make the needed investments to maintain service quality or the dividends to satisfy shareholders.

Q. HAS CENTURYLINK ACKNOWLEDGED THE POTENTIAL FOR HARM RELATED TO FAILING TO ACHIEVE ESTIMATED SYNERGY SAVINGS?

A. Yes. CenturyLink made this very point to the SEC and its shareholders when it stated that the inability to successfully integrate Qwest and CenturyLink could prevent CenturyLink from:

> achiev[ing] the cost savings anticipated to result from the merger, which would result in the anticipated benefits of the merger not being realized in the time frame currently anticipated or at all.[89]

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[88] *See e.g.*, Gast Minnesota Direct at p. 6 and p. 6, fn. 10.

[89] CenturyLink SEC Form S-4A, filed July 16, 2010, at p. 17.

While the Joint Petitioners' prefiled testimony in the instant case sidesteps the issue, in other states they have acknowledged the potential harms or "integration-related risks" associated with beginning the integration of Qwest before the integration of Embarq is complete.[90]

Q. HAS THE FCC PREVIOUSLY REJECTED CLAIMS THAT THERE ARE NO POTENTIAL HARMS RESULTING FROM A MERGER OF THIS TYPE?

A. Yes. When evaluating the SBC/Ameritech merger – a merger involving two ILECs – the FCC found harm resulting from the transaction in three areas:

- It removes one of the most significant potential participants in each of the applicant's local markets, for mass market and enterprise customers
- It substantially reduces the ability of regulators to implement and oversee the market-opening provisions of the 1996 Act because the ability to compare the practices of BOCs and ILECs is diminished, which increases the incumbent's market power
- It increases the incentive and ability of the Merged Company to discriminate against its competitors, particularly with respect to the provision of advanced services.

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[90] *See, e.g.*, Washington Utilities and Transportation Commission Docket No. UT-100820, Direct Testimony of G. Clay Bailey (CenturyLink), filed May 21, 2010, at p. 18 ("Q. Does the merger with Qwest include incremental financial risks because the Embarq transaction was only consummated at the end of June, 2009? A. CenturyLink believes that the integration-related risks are manageable for several reasons. …"). See also, the "Risk Factors" discussion found in CenturyLink's SEC Form S-4A, filed July 16, 2010, identifying, among others, the following as merger-related risks: (1) "substantial expenses in connection with completing the merger and integrating the business, operations, networks, systems, technologies, policies and procedures of Qwest with those of CenturyLink"; (2) "CenturyLink expects to commence these integration initiatives before it has completed a similar integration of its business with the business of Embarq, acquires in 2009, which could cause both of these integration initiatives to be delayed or rendered more costly or disruptive than would otherwise be the case"; (3) "the inability to successfully combine the businesses of CenturyLink and Qwest in a manner that permits the combined company to achieve the cost savings anticipated to result from the merger, which would result in the anticipated benefits of the merger not being realized in the time frame currently anticipated or at all." S-4A, at pp. 16-17.

The FCC found that these harms would have been fatal to the merger application but for the extensive list of conditions that were placed on the merger to offset the harm.[91] The harms identified by the FCC apply to the proposed transaction.

Q. ARE THERE OTHER REASONS TO TAKE ISSUE WITH JOINT PETITIONERS' CLAIM OF "NO HARM"?

A. Yes. The uncertainty surrounding the potential merger and what may take place afterward is causing significant uncertainty for CLECs, which in and of itself, causes harm. CLECs need certainty to plan their businesses and make prudent investments, and the proposed transaction results in uncertainty in virtually every aspect of the CLECs' relationship with the Merged Company.

F. Harm Due to a Lack of Certainty (Business Planning)

Q. IS THERE A GENERAL NEED FOR CERTAINTY IN BUSINESS RELATIONSHIPS?

A. Yes. In a general sense, when a business relies upon another business for services or parts, it is critical to have a contract in place that is specific and unambiguous. For instance, if Ford is purchasing tires for its vehicles from Firestone, it is very important for Ford to know and understand what type, size, quality and quantity of tires will be delivered to each manufacturing plant and when. Not surprisingly, the cost of the tires is also important for Ford in setting

[91] *In re Applications of AMERITECH CORP., Transferor, and SBC COMMUNICATIONS INC., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, Memorandum Opinion and Order, ¶¶ 348-349.

the prices for vehicles. If Firestone announced that it was being acquired by Tires, Inc. (a fictional company) on December 31, 2010, Ford would likely ask Firestone a litany of questions about what Ford could expect in 2011 – *e.g.*, whether Firestone will deliver the same type and size of tires Ford needs, whether the quality of the tires will be the same, whether the tires will be delivered to the manufacturing plant in a timely manner, etc. If Firestone came back to Ford and said "we don't know and won't know until 2011", Ford would (a) start looking to another tire supplier that can provide more certainty, (b) ask Firestone to provide commitments that can be relied upon in 2011, or (c) both. The point is that Ford would demand certainty so that it could continue to produce vehicles and deliver them to the showroom. Likewise, CLECs – who rely on ILEC-provided services – need certainty in order to deliver their services to the local market place.

Q. DO CLECS HAVE THE SAME OPTIONS WITH REGARD TO SUPPLIERS AS FORD DID IN YOUR PREVIOUS ANALOGY?

A. No. Unlike Ford, the CLECs cannot shop elsewhere for the critical wholesale services they purchase from the ILECs in the Joint Petitioners' territories. That means that certainty in relation to the services CLECs purchase from ILECs is even more important.

Q. HAS CENTURYLINK ACKNOWLEDGED THE HARM THAT RESULTS FROM UNCERTAINTY RELATING TO THE PROPOSED TRANSACTION?

A. Yes. In its Form S-4A filing (at page 16) CenturyLink states:

> In connection with the pending merger, some customers or vendors of each of CenturyLink and Qwest may delay or defer decisions, which could negatively impact the revenues, earnings, cash flows and expenses of CenturyLink and Qwest, regardless of whether the merger is completed.

CLECs are wholesale customers of Qwest and CenturyLink, and CenturyLink is correct that the pending merger can result in delayed or deferred decisions from these wholesale customers. And while CenturyLink focuses on the potential negative impacts on revenues, earnings, cash flows and expenses of Qwest and CenturyLink resulting from this uncertainty, CenturyLink ignores that this uncertainty also could cause negative impacts on CLEC revenues, earnings, cash flows and expenses. Likewise, in its recent Reply Comments to the FCC, CenturyLink states that, "the transaction will bring much-needed stability to the incumbent local exchange carrier ('ILEC') sector",[92] but ignores that CLECs also need stability and that the proposed transaction causes severe *un*certainty for CLECs. Because the Merged Company will be pursuing merger-related synergy savings for a three-to-five year period after the merger, the uncertainty for the Merged Company's CLEC wholesale customers will continue well beyond the date of merger approval.

Q. HAS THE COMMISSION SEEN REPRESENTATIONS SIMILAR TO THE JOINT PETITIONERS' THAT CERTAIN DECISIONS WILL NOT BE MADE UNTIL AFTER THE MERGER CLOSES BEFORE?

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[92] FCC WC Docket No. 10-110, Reply Comments of CenturyLink, Inc. and Qwest Communications International, Inc., filed July 27, 2010, at p. 9.

A. Yes. In this proceeding, Joint Petitioners have on dozens of issues, in initial testimony and in discovery, said that the relevant decisions has not been made yet and will not be made until after the merger. That has been the Joint Petitioners' response on almost everything – from which OSS will be used in Minnesota to the alleged synergy savings that will come from personnel reductions.

Q. HAVE YOU PREPARED AN EXHIBIT TO DEMONSTRATE THE SIGNIFICANT UNCERTAINTY FACING CLECS DUE TO THE PROPOSED MERGER?

A. Yes. Attached as Exhibit AHA-3 is a table which lists many of the important and customer-impacting issues that should be examined in determining whether the proposed transaction will cause "no harm" (*e.g.*, systems integration, operations integration, performance assurance plans, wholesale rates, etc.) and matches that list to what the Joint Petitioners have said about those issues in discovery responses. This exhibit shows complete uncertainty post-transaction for important issues such as OSS integration, billing systems integration, E911 systems, provisioning intervals, wholesale customer service, change management process, network investment, just to name a few. In each area, the Joint Petitioners were unable or unwilling to provide any plans or describe any changes that will take place – other than to say, *we'll let you know after the merger has been approved*. Unfortunately, that is too late. The Joint Petitioners must demonstrate *now* that the proposed transaction will do "no harm" and they have failed to demonstrate that as evidenced by this exhibit.

VI. FAILURE TO PROVE BENEFITS RESULTING FROM MERGER

Q. CAN THE COMMISSION VALIDATE CENTURYLINK'S CLAIMS OF BENEFITS RESULTING FROM THE MERGER?

A. No. Although CenturyLink has identified numerous alleged benefits from the proposed transaction, it has substantiated none of them. In discovery in Minnesota and other states undertaking merger reviews, various parties including CLECs, commission staffs and consumer advocates asked the Joint Petitioners about their plans regarding the alleged benefits, and in every instance, the Joint Petitioners have stated that they have no plans and/or that plans cannot be developed until after the transaction is approved. Again, *we'll let you know after the merger has been approved*. To demonstrate this point, I developed Exhibit AHA-4 which is a table that lists the alleged benefits resulting from the merger claimed by the Joint Petitioners and matches that list to what the Joint Petitioners have said about those alleged benefits in discovery responses. In each instance, there is no substance supporting the alleged benefit. By way of example, despite repeated claims about benefits related to broadband and IPTV deployment as a result of the merger,[93] when asked about its post-merger plans, CenturyLink was unable to provide any details (*i.e.*, no plans for rollout, no projection, no timeline) and, in fact, CenturyLink explained that it does not even know whether the Qwest network is currently capable of supporting the advanced services deployment that

[93] *See, e.g.*, Petition at pp. 3, 15, and 17.

CenturyLink has identified as a benefit of the merger.[94] Obviously, if the Qwest network is not capable of providing the advanced services that CenturyLink touts, then the alleged benefit of IPTV/advanced services deployment will not be realized post-transaction (or will be delayed indefinitely while the necessary upgrades can be made – a likely scenario given that the Merged Company will be focused on integration efforts and debt reduction post-merger). This exhibit shows the same results for other alleged benefits, including network investment, free cash flow, debt repayment, synergies, improved access to capital, implementation of CenturyLink's go-to-market model, and others. I was unable to locate a single alleged benefit that CenturyLink could substantiate with facts.

Q. WHAT WOULD THE JOINT PETITIONERS NEED TO SHOW TO SUBSTANTIATE THESE BENEFITS?

A. The FCC has applied the following criteria for determining whether a claimed benefit is cognizable:

1. "the claimed benefit must be transaction or merger specific (*i.e.*, the claimed benefit 'must be likely to be accomplished as a result of the merger but unlikely to be realized by other means that entail fewer anticompetitive effects')".
2. "the claimed benefit must be verifiable", which requires Applicants to "provide sufficient evidence supporting each claimed benefit…" and allows discounting of "benefits that are to occur only in the distant future…because…predictions about the more distant future are inherently more speculative than predictions about events that are expected to occur closer to the present" and

[94] See my Exhibit AHA-4 at pp. 1-4, and CenturyLink Response to OR UTC Staff Data Request 33, CenturyLink Response to IA OCA Data Request Number 004A, and CL response to WAUTC Staff DR 52 ("Once the transaction closes, a review of the marketplace will be done to determine needs of the [Oregon, Iowa, Washington] market. This process also includes an assessment of the capabilities of existing Qwest infrastructure necessary to support advanced communications, data, and potentially entertainment services the combined company may chose to rollout in the future…").

3. "marginal cost reductions [are more cognizable] than reductions in fixed cost" because "reductions in marginal cost are more likely to result in lower prices for consumers."[95]

Q. DO THE JOINT PETITIONERS' ALLEGED BENEFITS MEET THESE CRITERIA?

A. No. None of the alleged benefits are "verifiable" because no evidence was provided to support the benefits; rather, the Joint Petitioners make unsupported predictions about what may transpire in the distant future. To the contrary, the available evidence casts doubt on whether the alleged benefits will actually be realized. The alleged benefits also fail to satisfy the FCC's three-part criteria for other reasons. For example, the alleged benefit of broadband deployment does not meet the first prong (merger specific). Legacy Qwest has deployed broadband to 86% of its customers.[96] To expand this deployment, Qwest filed an application in March 2010, for federal stimulus grant from the Broadband Initiatives Program (BIP) "to extend broadband at speeds of 12 to 40 Mbps to rural communities throughout its local service region." Qwest has stated that "[t]he Transaction will not have any impact on this request."[97] What this means is that advanced deployment in Qwest's legacy territory is not merger-specific: Qwest is pursuing it independent of the merger. The Communications Workers for America (CWA)

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95 FCC CenturyTel/Embarq merger order, ¶ 35.

96 Integra, et al., Comments, WC Docket No. 10-110, at p. 67, citing Joint Applicants' FCC Application at 13.

97 See, e.g., Direct Testimony of Mark S. Reynolds, Exhibit MSR-1T, Washington UTC Docket No. UT-100820, May 21, 2010, at p. 10. Qwest described its grant application in more detail in response to Montana Consumer Counsel Data Request 58: "Qwest Corporation's project proposes deployment of High Speed Access within its current 14-state ILEC footprint. Over 500,000 living units (LUs) in [the 14 states] will be served with speeds ranging up to 40 Mbps downstream. About 90% of the LUs proposed for new or upgraded broadband service are in rural areas…And, if funded, the project's $467 M investment will create more than 23,000 jobs for local economies in the 14 states…" Again, this project is being pursued independently of the proposed transaction.

agreed with this assessment in their comments to the FCC on the proposed transaction:

> Although the Applicants claim that the proposed merger will result in accelerated broadband deployment and increased bandwidth, they provide no concrete, verifiable broadband commitments. The Applicants do not indicate the number of new households, small businesses, or anchor institutions that will have access to broadband; the upgraded capacity that will be delivered; nor the new markets that will be served with IPTV expansion.[98]

When CenturyLink was asked specifically about the third prong – *i.e.*, to identify the marginal cost reductions resulting from the merger, CenturyLink responded: "Those cost savings are not broken out between fixed or marginal cost."[99] As such, it is impossible to tell what portion, if any, of the estimated synergies would result in lower prices for consumers, and in turn, impossible for the Joint Petitioners to substantiate benefits under the third prong. If the Joint Petitioners cannot provide reasonable verification that their alleged benefits satisfy the FCC's test, the merger should not be approved.

Q. HAVE THE JOINT PETITIONERS IDENTIFIED ANY BENEFITS THAT WOULD ACCRUE TO CLECS FROM THE MERGER?

A. No. CenturyLink has not identified a single benefit that would accrue to CLECs. To my knowledge, the only place where CenturyLink discusses benefits to wholesale customers is in the following Q&A:

> **Q PLEASE SUMMARIZE HOW WHOLESALE CUSTOMERS WILL BENEFIT FROM THE MERGER TRANSACTION.**
>
> A. The additional financial resources, combined network capacity and geographic reach afforded by the merger will allow the combined

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98 Comments of Communications Workers of America, WC Docket No. 10-110, July 12, 2010, at p. 13.

99 CenturyLink Response to Integra Minnesota Data Request Set 2, #55a.

> company to continue to serve the wholesale market as valued customers. For example, as the demand for broadband wireless services has mushroomed, the need for additional fiber capacity to serve cellular tower sites (often referred to as wireless backhaul) has increased dramatically. As noted above, Qwest is already committing significant resources to serve the increased demand from wireless carriers in its region, and the combined entity will possess the resources to continue this investment.[100]

The first sentence of the answer does not identify any benefit. First, it simply says that the Merged Company will "continue to serve the wholesale market" – something that would occur independently of the proposed transaction. Second, the reference to the size of the Merged Company's footprint ("geographic reach") does not translate to benefits to wholesale customers unless the efficiencies that come along with that larger footprint are realized by the local market as well – such as lower transaction costs across the footprint. The remainder of the answer applies to fiber to cell towers – a claim that, even if substantiated, relates to benefits that would accrue largely, if not solely to the Joint Petitioners, and not to CLECs.

Q. HAVE CLECS RECEIVED ASSURANCE THAT THEY WILL SHARE IN ANY MERGER RELATED SAVINGS?

A. No. Take the larger footprint discussed above as an example. Due to this larger footprint, and associated alleged economies, the Merged Company is expecting $575 million in annual operating cost savings (from such sources as corporate overhead, network and operational efficiencies, IT support, increased purchasing power) and $50 million in annual capital expenditure savings.[101] As a result of

[100] Stanoch Minnesota Direct, at p. 29.

[101] Gast Minnesota Direct, at p. 9, Stanoch Minnesota Direct, at p. 15.

these synergies (the realization of which is speculative) the cost-structure of the combined company would decline. This should, in turn, result in lower rates for network elements and interconnection leased by CLECs because these cost-based rates should reflect the reductions in forward-looking costs resulting from the merger-related synergy savings. However, when asked if the Merged Company would adjust its cost-based wholesale rates to reflect these cost savings, CenturyLink replied: "CenturyLink has not evaluated or reached any conclusions concerning this issue at this time…"[102] And without a concrete commitment that allows CLECs to rightfully share in the cost-savings the combined company achieves, this will undoubtedly be very low on CenturyLink's priority list post-transaction. The end result is that the Merged Company will enjoy a cost advantage over its competitors, which is the antithesis of the federal pricing standards for network elements and interconnection.

Another example is transaction costs. As the Merged Company integrates its business across its 37 state serving territory, transaction costs for the Merged Company should decrease as its service offerings, practices, systems, etc. become increasingly uniform. By way of example, whereas before the transaction both Qwest and CenturyLink would have negotiated (and potentially arbitrated) interconnection agreements with a CLEC like tw telecom separately, after the transaction, the combined company could negotiate with the CLEC in a unified fashion (similar to how CenturyLink currently negotiates and arbitrates agreements for its separate rural and non-rural affiliates). This lowers the

[102] CenturyLink Response to Integra Minnesota Data Request Set 2, #55b.

combined company's wholesale transaction costs, and unless this benefit is shared by CLECs, it will create a competitive advantage for the combined company which already enjoys more bargaining power than the CLEC in ICA negotiations.

VII. RECOMMENDATIONS AND CONDITIONS

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE PROPOSED TRANSACTION?

A. I recommend that the Commission deny the merger as proposed. The Joint Petitioners have not met their own "no harm" standard or the public interest test under Minnesota law and have failed to materially substantiate the alleged benefits from the merger. However, if the Commission nevertheless approves the merger, it should do so only if the transaction is subject to robust, enforceable conditions to ensure that the proposed transaction ultimately serves the public interest.

In addition to the conditions discussed by Mr. Gates, I recommend that the Commission impose the conditions discussed below. (A full set of conditions is provided as Exhibit TJG-8 to Mr. Gates testimony.)

A. Wholesale Service Availability

Q. PLEASE IDENTIFY THE PROPOSED CONDITIONS RELATING TO WHOLESALE SERVICE AVAILABILITY.

A. There are nine conditions in this category – conditions 1, 6, 8, 9, 10, 12, 14 and 28 (the numbers correspond to the full list of conditions found in Exhibit TJG-8):

- Condition 1 provides that the Merged Company will make available and not discontinue for the Defined Time Period any wholesale service offered to a CLEC at any time between the merger filing date and the closing date (except as approved by the Commission).

- Condition 6 provides that the Merged Company will assume or take assignment of all obligations under Qwest's "Assumed Agreements" (which includes Qwest's interconnection agreements, commercial agreements and tariffs) and AFOR plans without requiring the wholesale customer to execute any documents to effectuate the assumption or assignment. Further, this condition also states that the Merged Company shall offer and not terminate or change the rates, terms and conditions under the Assumed Agreements for at least the Defined Time Period (or until the expiration date, whichever is longer) unless requested by the wholesale customer or required by change of law. Finally, this condition also states that the Merged Company will offer Commercial Agreements in CenturyLink legacy ILEC territory at prices no higher and time periods no shorter than those offered in the legacy Qwest territory.

- Condition 8 states that the Merged Company will allow extensions of existing interconnection agreements for at least the Defined Time Period (or expiration date whichever is later).

- Condition 9 states that the Merged Company will allow requesting carriers to use its pre-existing ICA as basis for negotiating a new ICA. For ongoing negotiations, this condition states that the existing negotiations draft will continue to be used for negotiations and that CenturyLink will not substitute negotiations proposals made prior to the closing date with CenturyLink's negotiations template interconnection agreement.

- Condition 10 states that in the CenturyLink ILEC territory, the Merged Company will allow a requesting carrier to opt into any ICA to which Qwest is a party in the same state. In situations in which there is no Qwest ILEC in the state, the condition allows the carrier to opt into any ICA to which Qwest is a party in any state in which it is an ILEC. This condition permits the state Commission to modify the ICA if the Merged Company demonstrates technical infeasibility or that the prices are inconsistent with the TELRIC-based prices in the state in question. This condition also carves out CenturyLink territories that currently operate under a rural exemption, but does not preclude a regulatory body from finding that the rural exemption should cease to exist, and in those instances, the merger condition would apply to those areas.

- Condition 12 states that the Merged Company will not seek to avoid obligations under Assumed Agreements on the grounds that it is not an ILEC. This condition also states that the Merged Company will waive its right to seek rural exemptions.

- Condition 14 states that for the Defined Time Period the Merged Company will not seek to reclassify wire centers or file new forbearance petitions in relation to its obligations under Sections 251 or 271 of the Act.
- Condition 28 states that, at the CLEC's option, the Merged Company will interconnect with CLEC at a single point of interconnection per LATA, regardless of whether the merged entity operates in that LATA via multiple operating affiliate companies or a single operating company.

Q. WHY ARE THESE CONDITIONS NECESSARY?

A. The concern underlying these conditions is that the availability of wholesale services should be stable over the foreseeable future to offset the substantial uncertainty and risks of degraded wholesale services associated with the proposed merger, including the risks that stem from the Merged Company's efforts to achieve synergy savings post-merger. These conditions ensure that the Merged Company does not direct its integration efforts to the detriment of wholesale customers by withdrawing services or significantly changing the offerings Qwest currently makes available.

These conditions also recognize that the Merged Company will be a larger carrier with a bigger footprint, possibly resulting in economies and efficiencies, as the Joint Applicants claim. To serve the public interest, any such economies and efficiencies should accrue in part to the benefit of captive wholesale customers and the general public as well as the merged company; otherwise, the Merged Company will enjoy an unreasonable cost advantage over its captive customers/competitors. As a result, if the Joint Applicants' claims of merger savings are accurate, those savings should decrease the costs associated with providing wholesale services and interconnection to CLECs. Allowing the

Merged Company to be the sole beneficiary of the economies and efficiencies resulting from the merger would have an anti-competitive and discriminatory impact on the merged company's captive wholesale customers, who depend on wholesale services from and interconnection with the ILEC to compete. Such a result would be inconsistent with the pro-competitive mandate of the Act, FCC orders, and state law, and contrary to the public interest.

Q. THESE CONDITIONS INVOLVE THE MERGED COMPANY CONTINUING TO MAKE AVAILABLE WHOLESALE SERVICES THAT QWEST CURRENTLY PROVIDES FOR THE DEFINED TIME PERIOD. WHY IS THIS WARRANTED?

A. Again, wholesale customers need certainty with regard to the elements and services they purchase from Qwest (or the Merged Company) for business planning purposes, and based on the transaction as filed, there is no such certainty. CLECs cannot simply go elsewhere for the wholesale services they need from Qwest and CenturyLink both now and post-merger, so certainty in this area is absolutely essential.

Q. REGARDING CONDITION 1, WHY IS IT IMPORTANT THAT THE MERGED COMPANY CONTINUE TO PROVIDE WHOLESALE SERVICES THAT IT PROVIDED ANYTIME BETWEEN THE MERGER FILING DATE AND CLOSING DATE?[103]

[103] "Merger Filing Date" when used in the list of conditions, "refers to May 10, 2010, which is the date on which Qwest and CenturyLink made their merger filing with the FCC." "Closing Date" when used in the list of conditions, "refers to the closing date of the transaction for which the Applicants have sought

A. The withdrawal of wholesale services after the Filing Date would signal a move toward the Merged Company impeding competition, and in turn, result in a merger-related harm. Even if a condition requires the Merged Company to maintain the wholesale services available at the Closing Date for a period of time, it would not cover the wholesale services that were eliminated between the Filing Date and Closing Date. This concern is based on past experience. One historical example is when Qwest (f/k/a US WEST) attempted to withdraw Centrex (or CENTRON as it is known in Minnesota) almost simultaneously with the passage of the Telecommunications Act of 1996. The Act was signed into law on February 8, 1996. On February 5, 1996, Qwest filed a notice to grandfather and ultimately terminate CENTRON services. After the Commission rejected that termination request; Qwest then followed up with a second request to terminate CENTRON on April 30, 1996.[104] Qwest made these filings to withdraw CENTRON despite the Commission's previous finding that "resale of CENTRON under certain conditions is in the public interest…"[105] Yet, in the relatively brief time between passage of the Act in February 2006 and issuance of the FCC's Local Competition Order to implement the local competition provisions of the Act in August 8, 1996, Qwest attempted to withdraw a wholesale service that was found to be in the public interest. Though Qwest was ultimately unsuccessful in

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approval from the Federal Communications Commission (FCC) and state commissions (the 'transaction')."

[104] *In the Matter of the Request of US WEST Communications, Inc.to Grandparent CENTRON Services With Future Discontinuance of CENTRON, CENTREX and Group Use Exchange Services*, Order Denying Petition, Minnesota PUC Docket No. P-421/EM-96-471, February 20, 1997 ("Minnesota CENTRON Order"), at pp. 1-2.

[105] Minnesota CENTRON Order at p. 8.

Minnesota,[106] competitors were still required to expend substantial time and money combating Qwest's anti-competitive conduct.

Q. WHAT ARE THE KEY COMPONENTS OF CONDITION 6?

A. There are at least two important aspects that I will discuss. First, Condition 6 prevents the Merged Company from requiring wholesale customers to execute documents to implement assignment of the obligations of existing Assumed Agreements. Second, this Condition requires the merged company to continue offering the terms and conditions of any Assumed Agreement, including any assumed commercial agreements for a reasonable period of time after the merger, which should be at least as long as the period of synergy savings projected by the Joint Applicants.

Q. WHY SHOULD THE MERGED COMPANY BE PROHIBITED FROM REQUIRING WHOLESALE CUSTOMERS TO EXECUTE ANY DOCUMENTS IN ORDER FOR THE MERGED COMPANY TO TAKE RESPONSIBILITY FOR QWEST'S EXISTING ICAS, TARIFFS AND AFOR PLANS (CONDITION 6)?

A. First, when asked whether CenturyLink would assume or take assignment of Qwest's obligations under ICAs, tariffs, etc., CenturyLink replied:

> Qwest Corporation does not cease to exist as a result of the parent-level Transaction but remains an ILEC, subject to the same terms and obligations of its interconnection agreements, tariffs, commercial agreements, line sharing agreements, and other existing arrangements with wholesale customers immediately after the merger as immediately prior to the merger.[107]

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106 Minnesota CENTRON Order at p. 13.

107 CenturyLink response to Integra Minnesota DR# 113(a).

Since Qwest does not cease to exist as a result of the transaction, there should be no reason for wholesale customers to have to execute additional documents in order for the Merged Company to assume the obligations under the existing wholesale agreements (*e.g.*, ICAs) and tariffs. Second, the transfer of control should be as smooth and seamless as possible, and requiring wholesale customers to receive, review, negotiate and execute documents for this purpose could result in disruption or delay during the transfer of control. And that disruption and delay would be exacerbated if wholesale customers disagree with the terms included in the documents the Merged Company wants wholesale customers to execute, resulting in parties seeking resolution of those disputes before this Commission.[108]

Q. WHY SHOULD THE MERGED COMPANY BE REQUIRED, AS IT WOULD BE BY CONDITION 6, TO CONTINUE MAKING QWEST'S COMMERCIAL AGREEMENTS AVAILABLE FOR THE DEFINED TIME PERIOD FOLLOWING THE MERGER?

A. As discussed above, this aspect of Condition 6 is essential to provides certainty and protection for wholesale customers and competition in the face of the uncertainty and risks associated with this proposed merger. Many CLECs have existing Commercial Agreements with Qwest, including agreements for the

[108] This is not a theoretical concern. For example, in Iowa, Joint Applicants and PAETEC had difficulty agreeing to the terms of the proprietary agreement that would govern the access and use of confidential information in the merger case in that state. Although PAETEC suggested that the parties use a proprietary agreement that had previously been used between Qwest and PAETEC, the Joint Applicants insisted on different terms. This caused significant delay in accessing the proprietary information associated with the Joint Applicants' discovery responses in Iowa. This delay was particularly burdensome in this instance because the Joint Applicants requested expedited approval of the merger and the intervenor testimony due date in Iowa was the earliest intervenor testimony due date in any state that is reviewing the proposed transaction that I am aware of.

provision of dark fiber, line sharing or the combined switch platform that used to be known as UNE-P. Those CLECs have built their business plans significantly around the availability of the products provided under those commercial agreements and the specific terms set forth in those agreements. Retail customers in turn receive competitive services based on CLEC access to these wholesale services from Qwest under these commercial agreements. Importantly, these CLECs generally have no alternative to Qwest for the products or services, such as dark fiber or line sharing, provided under these commercial agreements. Condition 6 would provide an assurance to the retail and wholesale customers currently relying on services provided under these commercial agreements that those services will remain available following the merger.

CenturyLink does not currently make similar products available under commercial agreements (*e.g.,* dark fiber, line sharing), although it may offer them through grandfathered contracts that are not commercially available to other CLECs. CenturyLink is the acquiring company in this merger. The fact that CenturyLink does not currently make these products commercially available further increases the risk to CLECs that these products will be withdrawn or the terms of their availability materially changed as a result of the merger. Based on the post-merger risks and incentives discussed throughout my testimony, I believe there is a great risk that, without Condition 6, CenturyLink (as the acquiring company) will not assume the obligations of Qwest's Commercial Agreements or will materially change them in a way that would be detrimental to CLECs and competition. This would result in extensive disruption to CLECs who rely on those products. Those CLECs would, in turn, lose their existing customers who purchase the CLEC services that rely on these wholesale products purchased from Qwest. Condition 6 at least minimizes the uncertainty and risk associated with the merger for a defined period.

Q. WILL CONDITION 6 RESULT IN OTHER PUBLIC INTEREST BENEFITS?

A. Yes. Condition 6 would result in the Merged Company offering the same commercial agreements at the same rates in CenturyLink's legacy territory as Qwest provides in its legacy territory. The Joint Petitioners have boasted the national breadth[109] and local depth of the Merged Company[110] as "key" benefits of the proposed merger. These benefits (or economies) should not accrue only to the Merged Company, however, or else the transaction will further entrench the Merged Company's monopoly position. One way to allow those economies to accrue to the benefit of competition is for the Merged Company to offer the same commercial agreements in legacy CenturyLink territory as it does in legacy Qwest territory.

CenturyLink's service territory includes 10 of the 14 states in which Qwest operates as a BOC, with more than two hundred adjacent exchanges[111] and more exchanges in close proximity. Once the companies merge, all of these exchanges will be under a single umbrella and there is no reason why commercial

[109] Petition at p. 16 ("national telecommunications company").

[110] Jones Minnesota Direct, at p. 7. ("A key benefit will come from leveraging each company's operational and network strengths, resulting in a company with an impressive national presence and local depth.")

[111] Joint Applicants' FCC Application, Exhibit 5, cited at Comments of Joint Commenters, WC Docket No. 10-110, July 12, 2010, at p. 18.

agreements from the Merged Company in one exchange should not also be available in the adjacent or neighboring exchange. This would provide consistency across the Merged Company's territory for those carriers who currently operate in both Qwest and CenturyLink territories and may encourage new competitors to enter the legacy territories of CenturyLink or Qwest.

Q. CONDITION 8 WOULD EXTEND EXISTING INTERCONNECTION AGREEMENTS (INCLUDING ICAS IN "EVERGREEN" STATUS) FOR AT LEAST THE DEFINED TIME PERIOD (OR DATE OF EXPIRATION WHICHEVER IS LATER). HAVE OTHER ILECS AGREED TO A SIMILAR COMMITMENT TO SECURE MERGER APPROVAL?

A. Yes. A similar provision was offered as a voluntary commitment to the FCC by AT&T and BellSouth.[112] Likewise, a similar condition was adopted by the Illinois Commerce Commission,[113] Public Utilities Commission of Ohio,[114] and Oregon Public Utilities Commission[115] as a condition of the Frontier/Verizon merger. While the time period for extension in previous decisions has ranged between 2.5 years and 3 years, the Defined Time Period is tied to the facts of this case.[116]

Q. WHY IS IT IMPORTANT TO REFERENCE "EVERGREEN" ICAS IN THIS CONDITION?

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112 AT&T/BellSouth FCC merger order, Appendix F, "UNEs" commitment #4.

113 ICC Order No. 09-0268, Conditions Appendix, Condition 5.

114 2010 Ohio PUC Lexis 142, *17.

115 2010 Ore. PUC LEXIS 64, *141.

116 Mr. Gates discusses the "Defined Time Period" in his direct testimony.

A. The reference to "evergreen" ICAs (or ICAs that continue in renewal status past their expiration date) is particularly important in this instance because Qwest currently operates under evergreen ICAs with numerous carriers and has for several years. For example, PAETEC operates under evergreen ICAs with Qwest in all 14 Qwest BOC states. The Qwest/PAETEC ICAs in Minnesota and Iowa have been in place since the 1997-1998 timeframe, and ICAs in other states have been in place since the 1999-2002 timeframe.[117] This means that terms and conditions under these "evergreen" ICAs have been acceptable to both companies for an extended period, and each carrier's respective network configuration (trunking, collocation arrangements, points of interconnection, traffic exchange, etc.) are based on those terms and conditions. Requesting carriers should not be required to endure the disruption and expense to renegotiate and (potentially) arbitrate the terms under which they have operated with Qwest for, in some cases, more than a decade – particularly given that the Merged Company will have its hands full post-merger as it tries to deliver on its synergy savings estimates and integrate the two companies.

Q. WHAT IS THE CONCERN BEING ADDRESSED BY CONDITION 9?

A. First, a number of CLECs are in the process of negotiating a replacement ICA with Qwest, and have expended considerable time and effort doing so. Those ongoing negotiations should not be disrupted mid-stream with new ILEC proposals from the Merged Company that replace those previously offered by

[117] See also, Opening Comments of Leap Wireless International, Inc., WC Docket No. 10-110, July 12, 2010, at p. 5 ("Leap's agreements with Qwest have been in this 'evergreen' status for several years, which reflects both parties' satisfaction with the existing ICAs.").

Qwest in negotiations. Accordingly, the Merged Company should continue to honor Qwest's negotiations draft in these ongoing negotiations and not replace it with CenturyLink's new positions. Otherwise, the proposed transaction will directly result in increased costs to CLECs as they may have to negotiate new issues or re-negotiate issues currently closed.

Condition 9 also states that the Merged Company will allow a requesting carrier to use its pre-existing ICA, including ICAs entered into with Qwest, as the basis for negotiating a replacement ICA. The existing ICAs between CLECs and Qwest have been approved by state commissions as compliant with federal and state law, sometimes after lengthy and contentious arbitration cases in which considerable amounts of scarce CLEC resources are expended. The CLECs should not have to start this process all over again by negotiating agreements from scratch, particularly because doing so would signal a reluctance on the Merged Company's part to make available the same wholesale offerings Qwest has provided for years. Further, the negotiations template proposal that CenturyLink may introduce is a complete mystery at this point,[118] and CLECs should not be forced to negotiate from scratch all over again based on what CenturyLink may come up with as its new ICA, going-in negotiations proposal. This same

[118] See, e.g., CenturyLink response to Integra Minnesota Data Request Set 2, #114 ("Currently, CenturyLink has separate template agreements for legacy CenturyTel and legacy Embarq companies but is in the process of finalizing a single CenturyLink template for interconnection agreements.") At this point, there is no indication as to what CenturyLink's template agreement may look like once it is finalized.

condition was adopted by the Oregon PUC as a condition of the Frontier/Verizon merger.[119]

Q. IS THERE ANOTHER REASON WHY CLECS SHOULD BE ABLE TO USE THEIR PRE-EXISTING ICAS WITH QWEST FOR THE BASIS OF NEGOTIATING A REPLACEMENT ICA?

A. Yes. As Mr. Gates explains, Qwest's Statement of Generally Available Terms (SGATS) was reviewed during the 271 approval process.[120] These "generally available terms" were incorporated into CLEC ICAs, many of which are part of currently-effective ICAs. For example, the framework, general numbering scheme, and many sections of the current Qwest-Integra interconnection agreement in Minnesota are substantially similar to Qwest's Minnesota SGAT terms.[121] In addition, CLECs have used Qwest's SGAT "as a key source to help frame interconnection agreement ('ICA') negotiation positions"; "as a resource for attempting to resolve disputes with Qwest such as in billing, carrier relations, and Change Management Process ('CMP') contexts"; and "as an internal resource" to, among other things, confirm state commission-approved terms and

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[119] 2010 Ore. PUC LEXIS 64, 124.

[120] *See, e.g.,* Colorado PUC Evaluation at 26 ("This retelling of bringing Qwest's SGAT into compliance with the 14-point competitive checklist only begins to touch on the volume and breath of issues that arose in Colorado's six SGAT workshops.... After evaluating these six staff workshop reports and the enormous record behind these reports, the [Colorado PUC] concluded Qwest's SGAT complies with the 14-point checklist."); *see also* Idaho PUC Consultation, Exhibit A, at 3 ("The checklist items were addressed in the context of Qwest's SGAT, and so the focus of the workshops was the SGAT terms required to comply with the checklist items. Qwest accordingly has filed the SGAT with the reports showing the terms as they were developed through the workshops and subsequent reports.").

[121] Compare Arbitrated Agreement for Terms and Conditions for Interconnection, Unbundled Network Elements, Ancillary Services, and Resale of Telecommunications Services Provided by Qwest Corp. for Eschelon Telecom of Minnesota, Inc. in the State of Minnesota, Minnesota PUC Docket No. IC-06-768 (10/6/08) with Minnesota SGAT Third Revision, Section 12 (3/17/03).

filed requirements.[122] By contrast, CenturyLink's interconnection agreement terms were not reviewed under a 271 approval process, but instead, are currently in the process of being developed.[123]

Q. CONDITION 10 ALLOWS CARRIERS IN CENTURYLINK'S LEGACY TERRITORY TO OPT INTO QWEST ICAS IN THE SAME STATE.[124] WHAT IS THE RATIONALE FOR THIS CONDITION?

A. The same rationale that applies for Condition 6 applies here. The FCC previously adopted a similar condition in conjunction with the AT&T/BellSouth merger, which required AT&T/BellSouth to make available to any CLEC any ICA (negotiated or arbitrated) to which a AT&T/BellSouth ILEC is a party in any state within the AT&T 22-state footprint, subject to state-specific pricing and technical feasibility. Notably, the CLEC-proposed condition permits the state commission to modify the ICA before opt in if the Merged Company demonstrates technical infeasibility or if the TELRIC-based prices in the ICA are inconsistent with the TELRIC-based prices in the state in question.

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122 Joint CLEC responses to Staff's First Set of Data Requests, ACC Docket No. T-01051B-08-0613, at 2 (2/18/09).

123 PAETEC has proposed a condition to the FCC requiring the Merged Company to offer a multistate ICA that extends the Qwest terms and conditions into the CenturyLink ILEC region. See, Comments of Joint Commenters, WC Docket No. 10-110, July 12, 2010, at p. 56. PAETEC made this recommendation to the FCC to reduce the transaction costs associated with Section 252 ICAs with the Merged Company, similar to how the FCC addressed this issue in the GTE/Bell Atlantic Merger. *See*, *In re Application of GTE Corporation and Bell Atlantic Corporation For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License,* Memorandum Opinion and Order, CC Docket No. 98-184, FCC-00-221, June 16, 2000 ("FCC GTE/Bell Atlantic Merger Order"), Condition X. This issue is of particular concern regarding the proposed transaction because of the way the Qwest multistate ICA has evolved and the fact that legacy CenturyLink's multistate ICA is still in development (and likely will continue to be under development during the integration process).

124 CenturyLink's service territory overlaps 10 of the 14 states in which Qwest operates as an ILEC. Under this condition, if there is no Qwest ILEC in the state, the carrier may opt into any ICA in which Qwest is an ILEC in any state.

Q. WOULD THIS OPT-IN CONDITION ALLOW CARRIERS TO "CHERRY-PICK THE BEST ICA TERMS"[125]?

A. No. This condition does not allow a carrier to pick-and-choose ICA terms.

Q. PLEASE EXPLAIN THE BUSINESS NEED FOR CONDITION 12.

A. There is a material risk that the Merged Company will seek to avoid its obligations as an incumbent LEC under Section 251(c) of the Act post-merger. While CenturyLink has entered into interconnection agreements with requesting carriers, CenturyLink has also expressly reserved the right to invoke the protections of Sections 251 (f)(1) and 251(f)(2) of the Act and thereby avoid its obligations as an incumbent LEC under Section 251(c). For example, in a recent Order approving two CenturyLink interconnection agreements, the Idaho Public Utilities Commission summarized CenturyLink's position as follows:

> [CenturyLink's] Application states that CenturyLink is a "rural telephone company," as that term is defined in the Act, 47 U.S.C. § 153. CenturyLink goes on to state that, pursuant to Section 251(f)(1) of the Act, it is exempt from Section 251(c) of the Act. Notwithstanding that exemption, the companies have agreed and entered into this Agreement for purposes of exchanging local traffic. The Company also states that "execution of the Agreement does not in any way constitute a waiver of limitation of CenturyLink's rights under Section 251(f)(1) or 251 (f)(2) of the Act." The Company "expressly reserves the right to assert its right to an exemption or waiver and modification of Section 251 (c) of the Act, in response to other requests for interconnection by CLEC or any other carriers."[126]

Condition 12 will ensure that the Merged Company does not pull the rug out from underneath wholesale customers in their relationships with the Merged Company.

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[125] Joint Applicants' Reply Comments, WC Docket No. 10-110, July 27, 2010, at p. 32.

[126] *In re Application of CenturyTel of Idaho, Inc. d/b/a CenturyLink for Approval of its Interconnection Agreement with Bullseye Telecom, Inc. Pursuant to* 47 *U.S.* C. § *252(e),* Order No. 31095, Idaho PUC Case Nos. CEN-T-10-01 & CGS-T-10-01, paragraph 1 (adopted May 28, 2010).

Q. PLEASE EXPLAIN THE BUSINESS NEED FOR CONDITION 14.

A. Condition 14 states that the Merged Company will not reclassify as "non-impaired" any wire centers or file any new forbearance petitions related to obligations under sections 251 or 271 of the Act for the Defined Time Period. This condition is needed to provide critical certainty for wholesale customers related to the bottleneck inputs they purchase from the Merged Company, while the Merged Company integrates the two companies and pursues synergy savings. As discussed above, this merger poses a substantial risk to CLECs as the post-merger ILEC's effort to achieve enormous projected synergy savings intersects with the ILEC's inherent disincentive to provide competing CLECs with reliable, reasonably priced access to wholesale services. Further, to the extent the merger results in any cost savings through economies of scope and scale, those benefits will accrue to the merging companies and not their captive CLEC customers. The proposed temporary moratorium on non-impairment reclassifications and forbearance will help mitigate the risk this merger poses to the public's interest in competition and provide some measure of public interest benefit to captive wholesale customers and competition. To adequately protect the public's interest in competition, it is essential to provide CLECs with a period of certainty during which the terms and conditions of access to the wholesale inputs they need to provide competitive local exchange services continue.

Q. DOES THE FCC'S RECENT DECISION REJECTING QWEST'S FORBEARANCE PETITION IN THE PHOENIX MSA SHOW WHY CONDITION 14 IS NEEDED?

A. Yes, in three distinct respects. First, the FCC's June 2010 decision on Qwest's forbearance petition in the Phoenix, Arizona MSA applies a new analytical framework for the evaluation of BOC forbearance petitions, which replaces the approach that the FCC developed in its 2005 decision granting Qwest forbearance in the Omaha MSA, and has applied in subsequent reviews of BOC petitions seeking similar relief.[127] While that new framework appears to be a substantial improvement, its introduction alone will tend to heighten the uncertainty surrounding future forbearance petitions to the FCC, given that the BOCs vigorously pursued previous FCC rejections of their forbearance decisions in the courts,[128] and may well test the new framework in the same way. Adopting Condition 14 for the Defined Time Period would avoid the uncertainty created by these events during that interim period.

Second, in the *Phoenix Forbearance Order*, the FCC explains the anti-competitive opportunities that would be created for a dominant ILEC – such as the Merged Company – if Sections 251 and/or 271 obligations were to be eliminated prematurely:

> …the Commission has long recognized that a vertically integrated firm with market power in one market – here upstream wholesale markets where…Qwest remains dominant – may have the incentive and ability to discriminate against rivals in downstream retail markets or raise rivals' costs…assuming that Qwest is profit-maximizing, we would expect it to exploit its monopoly position as a wholesaler and charge supracompetitive rates, especially given

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127 *In the Matter of Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. §160(c) in the Phoenix, Arizona Metropolitan Statistical Area*, WC Docket No. 09-135, Memorandum Opinion and Order, FCC 10-113, (rel. June 22, 2010) ("*Phoenix Forbearance Order*"), at ¶¶ 16-24.

128 See, e.g., *Id.*, ¶ 19, describing the D.C. Circuit Court's remands of the FCC's *Verizon 6 MSA Forbearance Order* and *Qwest 4 MSA Forbearance Order* in 2009.

> that (absent regulation) Qwest may have the incentive to foreclose competitors from the market altogether.[129]

Given that the merger will enhance the Merged Company's incentive and ability to discriminate against rivals in downstream retail markets and/or raise rivals' costs, Condition 14 is needed to ensure that the Merged Company does not act on these anti-competitive incentives, and to avoid the uncertainty (and costs) imposed on wholesale customers when a petition for forbearance is filed.

Third, the justification invoked by the FCC for moving to its new analytical framework shows why Condition 14's temporary moratorium on forbearance petitions is essential to preserve competition during the post-merger transition period. In the *Phoenix Forbearance Order*, the FCC all but declares that the grant of forbearance to Qwest in the Omaha MSA was a mistake, finding that in the *Omaha Forbearance Order* "the Commission eliminated all unbundled loop and transport obligations based largely on predictive judgments…" that were not borne out in the marketplace.[130] In hindsight, the Commission found that the analytical framework applied in the *Omaha Forbearance Order* was seriously flawed in that it was "not supported by current economic theory,"[131] "inappropriately assumed that a duopoly always constitutes effective competition,"[132] and "appears inconsistent with Congress' imposition of unbundling obligations as a tool to open local telephone markets to competition in

[129] *Phoenix Forbearance Order*, ¶ 34.
[130] *Id.*, ¶ 26.
[131] *Id.*, ¶ *28*.
[132] *Id.*, ¶ *29*.

the 1996 Act."[133] The FCC ultimately concluded that the outcome of that forbearance has been a substantial reduction in competitive activity in the Omaha MSA, as "the record indicates that McLeodUSA has removed most of its employees from the Omaha marketplace, has limited its operations primarily to serving its existing customer base, and has ceased sales of residential and nearly all business services in Omaha;" while Integra abandoned its plans to enter the Omaha market after the Commission released the *Omaha Forbearance Order*.[134]

Q. HAVE CLECS, SUCH AS PAETEC, SOUGHT TO REVERSE THE FCC'S GRANT OF FORBEARANCE IN THE OMAHA MSA IN THE CONTEXT OF THE FCC'S CENTURYLINK-QWEST MERGER REVIEW PROCEEDING?

A. Yes. For example, PAETEC has proposed the following condition in its initial comments in the FCC's on-going proceeding to review the CenturyLink-Qwest merger transaction, which were filed jointly with several other CLECs:

> Applicants shall voluntarily stipulate that McLeodUSA's Petition for Modification be granted and thereby, relinquish forbearance relief obtained in Omaha in WC Docket No. 04-223 and comply with Section 251(c)(3) UNE obligations throughout the Omaha MSA.[135]

Taking this step as a voluntary commitment would be the most efficient way to redress the Omaha situation. While the Commission need not take any action with respect to PAETEC's proposal to the FCC, adoption of Condition 14 by the

[133] *Id.*, ¶ *32*.

[134] *Id.*, ¶ *34*.

[135] PAETEC *et al*., Comments of Joint *Commenters*, July 12, 2010, WC Docket No. 10-110, at p. 67.

Commission in the instant case would be compatible with and complementary to that proposal.

Q. PLEASE EXPLAIN THE BUSINESS NEED FOR CONDITION 28.

A. As Mr. Gates explains, increased efficiencies can be gained by establishing a single POI per LATA with the Merged Company. Because those efficiencies will be enjoyed by the Merged Company, in part because of its network footprint, the same benefits should flow through to CLECs interconnecting with the Merged Company. Just as the purported financial benefits of the merger should be shared by captive CLECs, as discussed above, any operational benefits of accruing to the Joint Petitioners should also flow to the CLECs. This would also lower barriers to entry for competitors who would be permitted to capitalize on the increased scale and efficiencies of the Merged Company

B. Wholesale Rate Stability

Q. PLEASE IDENTIFY THE PROPOSED CONDITIONS RELATING TO WHOLESALE RATE STABILITY.

A. There are three conditions in this category – conditions 2, 3, and 7:

- Condition 2 states that the Merged Company will not recover or seek to recover through fees paid by CLECs (and hold CLECs harmless from), one-time transfer, branding, or any other transaction-related costs.
- Condition 3 states that the Merged Company will not recover or seek to recovery through fees paid by CLECs (and hold CLECs harmless from), any increases in overall management costs that result from the transaction.
- Condition 7 states that the Merged Company shall not increase prices for wholesale services above the level at merger announcement, or create new rate elements for functions that are currently recovered in existing rates, for the Defined Term Period. This condition also states that the Merged Company will continue to offer any term and volume discount plan offered at

merger announcement (without change) for at least the Defined Time Period, and will honor existing contracts on individualized term pricing plan arrangements for the duration of the term. This condition also states that in the legacy CenturyLink territory the Merged Company will comply with its obligation to provide transit in ICAs and at rates no higher than the cost-based rates approved for Qwest (or the current tandem transit rate, whichever is lower).

Q. WHY ARE THESE CONDITIONS NECESSARY?

A. Just as certainty and consistency for wholesale service availability is critical to offset the uncertainty resulting from the merger, so is stability for wholesale service rates. Wholesale rates should, if anything, decrease after the merger. Because the company's overall cost structure should decrease to the extent synergy savings are achieved post-merger, wholesale rates – which would be based on the cost structure of the Merged Company – should decrease as well. However, at this point, CLECs are not seeking rate reductions, but instead taking the conservative position that rates should not increase for at least the Defined Time Period (Condition 7). This provides a degree of protection for captive wholesale customers that the Merged Company will not seek to increase their rates (or create new rate elements) during the Merged Company's pursuit of synergies and revenue enhancements.

These conditions would also hold wholesale rates harmless from the one-time transaction related costs associated with marrying the two companies – costs that have traditionally not been recovered through wholesale rates. Finally, Condition 24 is necessary to prevent the Merged Company from adopting as a "best practice" in Qwest's territory anti-competitive charges assessed in legacy

CenturyLink ILEC territory, which are discussed in detail in Mr. Gates' testimony.

Q. REGARDING CONDITIONS 2 AND 3, HAS CENTURYLINK AGREED TO HOLD WHOLESALE CUSTOMERS HARMLESS FROM ONE-TIME MERGER RELATED COSTS AND INCREASES IN OVERALL MANAGEMENT COSTS RESULTING FROM THE MERGER?

A. No. When asked whether CenturyLink would seek to recover through wholesale rates or fees paid by CLECs "any one-time transfer, branding or any other merger-related costs" or "overall management costs", CenturyLink did not provide a straightforward answer. Instead, CenturyLink stated that it would record costs according to FCC Part 32 and would use forward-looking cost studies to develop UNE rates – rates that would include the Merged Company's management cost structure post-merger.[136] CenturyLink's response ignores the issue – *i.e.*, that wholesale customers should not have to pay for any of the costs of the merger and CenturyLink merging the two companies. This is especially true since CenturyLink claims there will be almost $700 million in savings associated with the merger. These principles have been recognized in numerous

[136] CenturyLink Responses to Integra Minnesota Data Request Set 2, #97 and #98. To make matters worse, there is uncertainty surrounding what cost models the Merged Company will use post-merger. This, too, is concerning because (a) the market participants in Qwest's region (including my firm QSI Consulting and my CLEC clients) have spent many hours reviewing and understanding Qwest's cost models for wholesale services (which are mostly consistent across Qwest's 14-state region) – work that would be undermined by a decision of the Merged Company to import legacy CenturyLink cost models into Qwest' region post-merger; and (b) I personally reviewed some of CenturyLink legacy cost studies in my prior work for cable CLECs and can say with first-hand knowledge that the sophistication, transparency and auditability of CenturyLink's cost studies is inferior to Qwest's legacy cost studies.

previous mergers[137] and the same principle has been applied to retail service rates.[138]

Q. CONDITION 7(A) STATES THAT THE MERGED COMPANY WILL CONTINUE TO OFFER ANY TERM AND VOLUME DISCOUNT PLANS OFFERED AS OF THE MERGER ANNOUNCEMENT DATE FOR AT LEAST THE DEFINED TIME PERIOD. IS THERE AN EXAMPLE DEMONSTRATING THE NEED FOR THIS CONDITION?

A. Yes. On April 30, 2010 (after the Merger Announcement Date[139]), Qwest filed a "Product Notification"[140] (with an effective date of June 1, 2010) "to change its Regional Commitment Program (RCP) from a unit based plan to a revenue based plan and raise the commitment level from 90% to 95% of the total Company-provided in-service DS1 and DS3 Revenue."[141] This change was made to the entire 14-state Qwest ILEC territories covered by its Tariff F.C.C. No. 1 (interstate access tariff). A RCP is a pricing plan that allows DS1 and/or DS3 customers to receive price reductions for committing to a minimum volume on DS1 and/or DS3 circuits for a certain period of time.[142] As of May 31, 2010 (the day before the effective date of Qwest's Product Notification), the former RCP provisions were no longer available to wholesale customers, and the new, less

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137 Conditions substantially similar to proposed conditions 2 and 3 were adopted by the Oregon PUC in the Verizon/Frontier merger proceeding.

138 See, ICC order in Verizon/Frontier merger, and Oregon PUC order in Embarq/CenturyTel merger.

139 The Merger Announcement Date, when used in this list of conditions, refers to April 21, 2010, which is the date on which Qwest and CenturyLink entered into their merger agreement.

140 PROD.RESL.04.30.10.F.07809.DS1_DS3_Services

141 Product Notification: PROD.RESL.04.30.10.F.07809.DS1_DS3_Services, filed April 30, 2010.

142 Qwest Corporation, Tariff F.C.C. No. 1, 3rd revised page 7-100.

favorable terms are required going forward.[143] As Integra informed Qwest, these RCP changes "greatly diminish the value of the RCP" by "increasing the risk associated with the plan" and were put in place shortly before "some of these plans are about to expire."[144] I have attached Qwest's Product Notification and Integra's correspondence with Qwest on this issue as Exhibit AHA-5. The point here is that the Joint Petitioners are taking steps after the Merger Announcement Date and before the Closing Date to raise barriers to entry and enhance its revenues at the expense of wholesale customers, either in terms of degraded services or higher rates. While this is one example, there can be no question that the Joint Petitioners are geared towards improving the combined company's financial condition, and because it is most profitable for them to boost revenues at the expense of their competitors, there are (and/or will be) likely other similar examples. The Joint Petitioners have stated that "[o]ne of the Transaction's key benefits is the resulting financial condition of the combined company" and a "financially stronger company can…compete against cable telephony providers, wireless carriers, VoIP offerings, and CLECs…"[145] I do not object to robust competition with the Merged Company so long as the competition is fair, but what I do object to in this instance (and what this example shows) is the Joint Petitioners attempting to hinder the CLECs ability to compete with the Merged Company before the proposed transaction is even approved. That is why it is

143 Qwest Corporation, Tariff F.C.C. No. 1, 3rd revised page 7-100.

144 See Exhibit AHA-5. It is my understanding that Integra's current RCP expires in the fall 2011. At that time, the new, less favorable RCP terms put in place by Qwest after the Merger Announcement Date will be the only RCP terms available.

145 Petition at p. 11.

important to provide protections for the time period between the Merger Announcement Date and Closing Date as well as for the Defined Time Period.

VIII. ADDITIONAL CONSIDERATIONS

A. If the Merger Leads to Lower Costs, Wholesale Prices Should Come Down Commensurably with Costs

Q. IF THE MERGER IS APPROVED, SHOULD WHOLESALE CUSTOMERS SHARE THE BENEFITS?

A. Yes. As discussed, mergers are driven by the objective to increase shareholder value, which, if it actually happens, is a good thing, since it balances for shareholders the potential risks and rewards for owning the company. In the telecommunications industry, however, retail competition relies critically on access to the ILECs' wholesale services, as provided for in the Telecommunications Act of 1996. This means that in the telecommunications industry there are other significant stakeholders likely to be impacted by the merger: CLECs and their customers. Given that in this merger CLECs are being subjected to significant risks, standard economy theory suggests that they likewise should be allowed to reap potential benefits. Specifically, to the extent that the merger may generate benefits in terms of lower overall network and overhead costs (due to realized efficiencies), cost reductions should flow through to CLECs in the form of, for example, lower transaction costs in relation to dealing with the Merged Company.

Q. ARE ANY ADDITIONAL SAFEGUARDS APPROPRIATE TO ENSURE THAT MERGER-DRIVEN COST REDUCTIONS WOULD FLOW THROUGH ON A NON-DISCRIMINATORY BASIS TO ALL WHOLESALE CUSTOMERS, RATHER THAN JUST AFFILIATES OF THE MERGED COMPANY?

A. Yes. To the extent that UNEs and interconnection are required to be priced at TELRIC, forward-looking cost savings should be reflected in lower UNE and interconnection rates as a matter of law.

Similarly, with respect to the pricing of other wholesale products, such as special access services, the Merged Companies should be expected to pass through merger-related cost savings at least in part to their wholesale customers in a nondiscriminatory manner.

B. A Post-Merger CenturyLink Should Waive Future Claims of Rural Exemptions

Q. WHAT IS THE RURAL EXEMPTION?

A. The Federal Telecommunications Act of 1996 generally requires all ILECs to interconnect their networks and exchange traffic with other telecommunications carriers (Section 251, Section 252). Section 251(f), however, provisionally exempts rural ILECs from the obligations under Section 251(c) until they receive a bona fide request for interconnection from a telecommunications carrier. Once such a request is made, the exemption may be terminated by a state commission, if the commission finds that certain conditions are satisfied. Specifically, Section 251(f)(1) generally states that the state commission shall terminate the rural exemption from the 251(c) obligations if the request: (1) is not unduly burdensome; (2) is technically feasible; and (3) is consistent with universal service policies detailed in section 254 (other than subsections (b)(7) and (c)(1)(D).)

Many rural carriers have been hiding behind the rural exemption to avoid competition at the expense of rate payers and the public interest at large. In fact, the FCC has taken note and stated that it will clarify the rural exemption so as to prevent abuse:

> There is evidence that some rural incumbent carriers are resisting interconnection with competitive telecommunications carriers, claiming that they have no basic obligation to negotiate interconnection agreements. […] Without interconnection for voice service, a broadband provider, which may partner with a competitive telecommunications carrier to offer a voice-video-Internet bundle, is unable to capture voice revenues that may be necessary to make broadband entry economically viable. Accordingly, to prevent the spread of this anticompetitive interpretation of the Act and eliminate a barrier to broadband deployment, the FCC should clarify rights and obligations regarding interconnection to remove any regulatory uncertainty. In particular, the FCC should confirm that all telecommunications carriers, including rural carriers, have a duty to interconnect their networks.[146]

Q. SHOULD THE MERGED COMPANY WAIVE ITS RIGHT TO SEEK ANY FURTHER RURAL EXEMPTIONS UNDER SECTION 251(F)(1) OR SUSPENSIONS AND MODIFICATIONS UNDER SECTION 251(F)(2)?

A. Yes. The rural exemption is intended for small rural carriers whose economic viability may be threatened if they were obligated to incur costs to implement all the unbundling and resale provisions of the Telecommunications Act of 1996,

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[146] FCC's *Connecting America, the National Broadband Plan*, at p. 49.

such as the costs associated with the development of sophisticated OSS. These considerations are not relevant with respect to a post-merger CenturyLink because it will provide service (through its affiliates) in 37 states, thus becoming the third largest ILEC in the country, behind AT&T and Verizon. Surely Congress did not intend to exempt the largest incumbent service providers in the nation from their statutory obligations under Section 251. Notably, this Commission declined to provide rural exemption protections to GTE in 1996, when that company operated nationally and provided service in less populated areas, similar to the post-merger CenturyLink's operational profile. The Commission determined that it was appropriate to consider the rural exemption based upon GTE's national telephone operations, not on its State affiliate's profile.[147] The Commission also concluded that "Congress had no intention of extending the exemption to a company such as GTE, which [at the time] remains the nation's single largest local telephone service provider in the United States."[148] Hence, I recommend that the Merged Company commit to waive its right to seek the exemption for rural telephone companies under Section 251(f)(1) and its right to seek suspensions and modifications for rural carriers under Section 251(f)(2) of the Communications Act.

Q. THE STATUTE ESTABLISHES A SEPARATE PROCESS FOR STATE COMMISSIONS TO TERMINATE A RURAL EXEMPTION. DOES YOUR RECOMMENDATION INTERFERE WITH THAT PROCESS?

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[147] *In the Matter of AT&T Communications of the Midwest, Inc.'s petition for Arbitration with GTE Communications, Inc. Pursuant to Section 252(b) of the Federal Telecommunications Act of 1996*, Order Denying Claim to Rural Exemption at 4, Docket P-442, 407/M-96-939 (Minn. PUC 1996).

[148] *Id*.

A. No. The imposition of a condition to waive the rural exemption would not interfere with the existing statutory process for terminating an exemption. That process would remain available for competitors to utilize in individual cases. But note that those cases can substantially increase competitors' cost of obtaining interconnection with companies like CenturyLink. Given the circumstances of this transaction, and the fact that CenturyLink will become the third largest ILEC in the nation, it is appropriate to predicate approval of the transaction on Condition 12.

Q. ARE YOU AWARE OF ANY CIRCUMSTANCES IN WHICH A COMPANY HAS WAIVED ITS RURAL EXEMPTION, AS YOU HAVE RECOMMENDED?

A. Yes. In Oregon, CenturyLink recently waived, at least partially, certain protections from the rural exemption. The Oregon Public Utilities Commission determined that federal law, including the statutory process for terminating an exemption, does not preclude a carrier's ability to waive the rural exemption.[149] The Oregon Public Utility Commission cited state commission decisions in Washington and North Carolina as support its findings.[150] Notably, the Oregon Commission also cited as support for its conclusion that waivers are permissible the fact that transaction costs associated with a rural exemption termination proceeding can be quite burdensome on the parties, and the state commission. The order explains: "The administrative burden on a state commission and the

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[149] *See In the Matter of Western Radio Services Company Request for Interconnection Agreement of CenturyTel of Eastern Oregon, Inc.*, Order Answering Certified Questions, ARB 864, 2009 Ore. PUC LEXIS 421 at **18-23, (Ore. PUC Dec. 14, 2009).

[150] *Id*. at 19.

parties involved in a section 251(f)(1)(B) proceeding relieved by a voluntary waiver is significant and should not be ignored."[151]

IX. SUMMARY AND CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY AND STATE YOUR CONCLUSIONS.

A. In this testimony, I have discussed the troublesome history of mergers and demonstrated that the Commission should prepare for the possibility that this merger, like many others, could fail or otherwise create havoc for the industry, and require that the Joint Petitioners agree to certain conditions and commitments necessary to protect CLECs and the competitive process. To that purpose, I have identified and discussed specific conditions and commitments that should be required of Joint Petitioners as prerequisites for the merger approval. (A complete list is provided by Mr. Gates in his testimony.)

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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[151] *Id*. at 19-20.

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd	Chair
J. Dennis O'Brien	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink	Docket No. P-421, et al./PA-10-456

EXHIBIT AHA-1

TO THE

DIRECT TESTIMONY OF DR. AUGUST H. ANKUM

ON BEHALF OF

CBEYOND COMMUNICATIONS, LLC, CHARTER FIBERLINK CCO, LLC, INTEGRA TELECOM, INC., LEVEL 3 COMMUNICATIONS, LLC, MCLEODUSA TELECOMMUNICATIONS SERVICES, INC., d/b/a PAETEC BUSINESS SERVICES, TDS METROCOM, LLC, TW TELECOM OF MINNESOTA, LLC, ORBITCOM, INC. AND POPP.COM

August 19, 2010

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Biography

Dr. Ankum is a founding partner of QSI, serves as Senior Vice President, and is the firm's Chief Economist. Dr. Ankum is an economist and consultant specializing in both domestic and international telecommunications issues. Before co-founding QSI, Dr. Ankum worked directly with a number of the country's largest communications firms in his own practice. Prior to that, in 1996, he served as Senior Economist for MCI Telecommunications Corporation's Public Policy Division, and before that, in 1995, as a Manager in the Regulatory and External Affairs Division of Teleport Communications Group, Inc. (subsequently purchased by AT&T). While at MCI and TCG, Dr. Ankum provided advice and expert testimony regarding the economics of telecommunications and public policy before the FCC and in contested proceedings before state public utility commissions. Over the course of his career, Dr. Ankum has worked on virtually all issues pertaining to the introduction of competition in telecommunications markets. Dr. Ankum began his career in telecommunications with the Texas Public Utility Commission, where he served as the Commission Staff's Chief Telecommunications Economist before leaving in 1994.

Educational Background

Ph.D., Economics
University of Texas, Austin, Texas 1992

Master of Arts, Economics
University of Texas, Austin, Texas 1987

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Quincy College, Quincy, Illinois 1982

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Professional Experience

QSI Consulting (1999 to Current)	Founding Partner and Senior Vice President
Ankum & Associates (1996 - 1999)	Founding partner and President
MCI (1995 - 1996)	Senior Economist
TCG (1994 - 1995)	Manager
Texas Office of Public Utility Commission (1987 – 1994)	Chief Economist, and Economist.

PROCEEDINGS BEFORE STATE PUBLIC UTILITY COMMISSIONS IN WHICH DR. ANKUM HAS FILED EXPERT WITNESS TESTIMONY:

Before the California Public Utilities Commission
Consolidated Docket
Joint Application of AT&T Communications of California, Inc. (U 5002 C) and WorldCom, Inc. for the Commission to Reexamine the Recurring Costs and Prices of Unbundled Switching in Its First Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050
On behalf of ATT and MCI

Before the Public Utilities Commission of the State of Colorado
Docket No. 08F-259T
Qwest Communications Company, LLC, (Complainant), v. MCIMetro, XO Communications Services, Time Warner Telecom, Granite Telecommunications, Eschelon Telecom, Arizona DialTone, CAN Communications, Bullseye Telecom, Inc., ComTel Telecom Assets, LP, Earnest Communications, Inc., Level3 Communications, LLC, and Liberty Bell Telecom, LLC. (Respondents)
On behalf of Eschelon Telecom, Inc., XO Communications Services, Inc., Granite Telecommunications, LLC, and ACN Communication Services, Inc. ("Joint CLECs.")

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Before the Public Utilities Commission of the State of Colorado
Docket No. 07A-211T

In the Matter of Qwest Corporation's Application, Pursuant to Decision Nos. C06-1280 and C07-0423, Requesting that the Commission Consider Testimony and Evidence to Set Costing and Pricing of Certain Network Elements Qwest Is Required to Provide Pursuant to 47 U.S.C. §§ 251(B) and (C)
On Behalf of CBeyond Communications, Comcast Phone of Colorado, LLC, DIECA Communications, Inc. d/b/a Covad Communications Company, Integra Telecom, Inc., McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services, XO Communications Services, Inc.

Before the Connecticut Department of Public Utility Control
Docket No. 02-05-17
DPUC Investigation of Intrastate Carrier Access Charges
On behalf of AT&T and MCI

Before the Connecticut Department of Public Utility Control
Docket Nos. 09-04-21, 08-12-04
DPUC Investigation into the Southern New England Telephone Company's Cost of Service Re: Reciprocal Compensation and Transit Services
On Behalf of the Connecticut Department of Utility Control

Before the Delaware Public Service Commission
PSC Docket No. 00-025
Petition of Focal Communications Corporation of Pennsylvania For Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Bell Atlantic – Delaware, Inc.
On behalf of Focal Communications Corporation of Pennsylvania

Public Service Commission of the District of Columbia
Formal Case No. 1040
In the Matter of the Investigation into Verizon Washington, D.C. Inc.'s Universal Emergency Number 911 Services Rates in the District of Columbia.
Advisor to the Public Service Commission of the District of Columbia

Before the Federal Communications Commission
CC Docket No. 01-92
In the Matter of Developing a Unified Intercarrier Compensation Regime
On behalf of NuVox Communications, Inc.

Before the Florida Public Utilities Commission
Docket No. 990649B-TP
Investigation into Pricing of Unbundled Network Elements
On behalf of AT&T Communications of the Southern States, Inc. MCImetro Access Transmission Services, LLC & MCI WorldCom Communications, Inc., Florida Digital Network, Inc. (collectively called the "ALEC Coalition").

Before the Florida Public Utilities Commission
Docket No. 030829-TP
In the Matter of Complaint of FDN Communications for Resolution of Certain Billing Disputes and Enforcement of UNE Orders and Interconnection Agreements with BellSouth Telecommunications, Inc.
On behalf of Florida Digital Network, Inc. d/b/a FDN Communications

Before the Georgia Public Service Commission
Docket No. 6352-U.
AT&T Petition for the Commission to Establish Resale Rules, Rates and terms and Conditions and the Initial Unbundling of Services
On behalf of MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket No. 94-0048
Adoption of Rules on Line-Side Interconnection and Reciprocal Interconnection
On behalf of Teleport Communications Group, Inc.

Before the Illinois Commerce Commission
Docket No. 94-0096
Proposed Introduction of a Trial of Ameritech's Customer First Plan in Illinois
On behalf of Teleport Communications Group, Inc.

Before the Illinois Commerce Commission
Docket No. 94-0117
Addendum to Proposed Introduction of a Trial of Ameritech's Customer First Plan in Illinois
On behalf of Teleport Communications Group, Inc.

Before the Illinois Commerce Commission
Docket No. 94-0146
AT&T's Petition for an Investigation and Order Establishing Conditions Necessary to Permit Effective Exchange Competition to the Extent Feasible in Areas Served by Illinois Bell Telephone Company
On behalf of Teleport Communications Group, Inc.

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Before the Illinois Commerce Commission
Docket No. 95-0315
Proposed Reclassification of Bands B and C Business Usage and Business Operator Assistance/Credit Surcharges to Competitive Status
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission
Docket 94-480
Investigation Into Amending the Physical Collocation Requirements of 83 Ill. Adm. Code 790
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission
Docket No. 95-0458
Petition for a Total Local Exchange Wholesale Tariff from Illinois Bell Telephone Company d/b/a Ameritech Illinois and Central Telephone Company Pursuant to Section 13-505.5 of the Illinois Public Utilities Act
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission
Docket No. 95-0296
Citation to Investigate Illinois Bell Telephone Company's Rates, Rules and regulations For its Unbundled Network Component Elements, Local Transport Facilities, and End office Integration Services
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission
Docket No. 96-AB-006
In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Illinois Bell Telephone Company d/b/a Ameritech Illinois
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission
Docket No. 96-AB-007
In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Central Telephone Company of Illinois ("Sprint")
On behalf of MCI Telecommunications Corporation.

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Before the Illinois Commerce Commission
Docket No. 96-0486
Investigation into forward looking cost studies and rates of Ameritech Illinois for interconnection, network elements, transport and termination of traffic.
On behalf of MCI Telecommunications Corporation.

Before the Illinois Commerce Commission
Docket No. 98-0396.
Phase II of Ameritech Illinois TELRIC proceeding
On behalf of MCIWorldCom.

Before the Illinois Commerce Commission
Docket No. 00-0700
Illinois Commerce Commission On its Motion vs Illinois Bell Telephone Company Investigation into Tariff Providing Unbundled Local Switching with Shared Transport
On behalf of AT&T Communications of Illinois, Inc., and WorldCom, Inc.

Before the Illinois Commerce Commission
Docket No. 02-0864
In the Matter of: Illinois Bell Telephone Company, Filing to Increase Unbundled Loop and Nonrecurring Rates (Tariffs Filed December 24, 2002)
On Behalf of WorldCom, Inc., McLeodUSA Telecommunications Services, Inc., Covad Communications Company, TDS Metrocom, LLC, Allegiance Telecom of Illinois, Inc., RCN Telecom Services of Illinois, LLC., Globalcom, Inc., Z-Tel Communications, Inc., XO Illinois, Inc., Forte Communications, Inc., CIMCO Communications, Inc.

Before the Indiana Regulatory Commission
Cause No. 39948
In the matter of the Petition of MCI Telecommunications Corporation for the Commission to Modify its Existing Certificate of Public Convenience and Necessity and to Authorize the Petitioner to Provide certain Centrex-like Intra-Exchange Services in the Indianapolis LATA Pursuant to I.C. 8-1-2-88, and to Decline the Exercise in Part of its Jurisdiction over Petitioner's Provision of such Service, Pursuant to I.C. 8-1-2.6.
On behalf of MCI Telecommunications Corporation

Before the Indiana Regulatory Commission
Cause No. 40178
In the matter of the Petition of Indiana Bell Telephone company, Inc. For Authorization to Apply a Customer Specific Offering Tariff to Provide the Business Exchange Services Portion of Centrex and PBX Trunking Services and for the Commission to Decline to Exercise in Part Jurisdiction over the Petitioner's Provision of such Services, Pursuant to I.C. 8-1-2.6
On behalf of MCI Telecommunications Corporation.

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Before the Indiana Regulatory Commission
Cause No. 40603-INT-01
MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Indiana Bell Telephone Company d/b/a Ameritech Indiana
On behalf of MCI Telecommunications Corporation.

Before the Indiana Regulatory Commission
Cause No. 40611
In the matter of the Commission Investigation and Generic Proceeding on Ameritech Indiana's Rates for Interconnection Service, Unbundled Elements and Transport and Termination under the Telecommunications Act of 1996 and Related Indiana Statutes
On behalf of MCI Telecommunications Corporation.

Before the Indiana Regulatory Commission
Cause No. 40618
In the Matter of the Commission Investigation and Generic Proceeding on GTE's Rates for Interconnection, Service, Unbundled Elements, and Transport under the FTA 96 and related Indiana Statutes
On behalf of MCI Telecommunication Corporation.

Before the Indiana Regulatory Commission
Cause No. 40611-S1
In the matter of the Commission Investigation and Generic proceeding on the Ameritech Indiana's rates for Interconnection, Unbundled Elements, and Transport and Termination Under the Telecommunications Act of 1996 and Related Indiana Statutes
On behalf of WorldCom, Inc., AT&T Communications of Indiana, G.P.

Before the Indiana Utility Regulatory Commission
Cause No. 42393
In the Matter of the Commission Investigation and Generic Proceeding of Rates and Unbundled Network Elements and Collocation for Indiana Bell Telephone Company, Incorporated D/B/A SBC Indiana Pursuant to the Telecommunications Act of 1996 and Related Indiana Statues.
On Behalf of WorldCom, Inc. ("MCI") McLeodUSA Telecommunications Services, Inc., Covad Communications Company, Z-Tel Communications, Inc.

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Before the Iowa Department of Commerce Utilities Board
Docket No: RPU – 00 – 01
US West Communications, Inc.,
On behalf of McLeodUSA.

Before the State of Maine Public Utilities Commission
Dockets Nos. 2007-611, 2008-214 through 2008-218, 2009-41-44.
CRC Communications of Maine, Inc., Investigation Pursuant to 47 U.S.C. § 251(f)(1) Regarding CRC Communications of Maine's Request of Lincolnville, Telephone Company, UniTel, Inc., Oxford Telephone Company, Oxford West Telephone Company, Tidewater Telecom, Inc.
On Behalf of CRC Communications, Inc. an Time Warner Cable

Before the Maryland Public Utilities Commission
Case No. 8988
In The matter, The Implementation Of The Federal Communications Commission's Triennial Review Order.
On Behalf of Cavalier Telephone, LLC

Before the Massachusetts Department of Energy and Transportation
D.P.U. 96-83
NYNEX/MCI Arbitration
On behalf of MCI Telecommunications Corporation.

Before the Massachusetts Department of Energy and Transportation
Docket 01-20
Investigation into Pricing based on TELRIC for Unbundled Network Elements and Combinations of Unbundled Networks Elements and the Appropriate Avoided Cost Discount for Verizon New England, Inc. d/b/a Verizon Massachusetts' Resale Services.
On behalf Allegiance, Network Plus, Inc., El Paso Networks, LLC, and Covad Communications Company.

Before the Massachusetts Department of Energy and Transportation
Docket 01-03
Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Regulatory Plan to succeed Price Cap Regulation for Verizon New England, Inc. d/b/a Verizon Massachusetts' intrastate retail telecommunications services in the Commonwealth of Massachusetts
On behalf of Network Plus, Inc.

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Before the Massachusetts Department of Telecommunications and Energy
D.T.E. 03-60
Proceeding by the Department on its own Motion to Implement the Requirements of the Federal Communications Commission's Triennial Review Order Regarding Switching for Mass market Customers
On Behalf of Conversent Communications of Massachusetts, LLC

Before the Massachusetts Department of Telecommunications and Cable
D.T.E. 06-61
Investigation by the department on its own Motion as to the Propriety of the rates and Charges Set Forth in the following tariff: M.D.T.E. No. 14, filed with the Department on June 16, 2006, to become Effective July 16, 2006, by Verizon New England, Inc. d/b/a Verizon Massachusetts
On Behalf of Broadview networks, Inc.; DSCI Corporation; Eureka Telecom, Inc. d/b/a InfoHighway Communications; Metropolitan Telecommunications of Massachusetts, Inc., a/k/a MetTel; New Horizon Communications; and One Communications
9/2006

Before the Massachusetts Department of Telecommunications and Cable
D.T.E. 07-9
Department Investigation into the Intrastate Access Rates of Competitive Local Exchange Carriers
On behalf of One Communications, PAETEC Communications, Inc., RNK Communications, and XO Communications Services, Inc.

Before the Michigan Public Service Commission
Case No. U-10647
In the Matter of the Application of City Signal, Inc. for an Order Establishing and Approving Interconnection Arrangements with Michigan Bell Telephone Company
On behalf of Teleport Communications Group, Inc.

Before the Michigan Public Service Commission
Case No. U-10860
In the Matter, on the Commission's Own Motion, to Establish Permanent Interconnection Arrangements Between Basic Local Exchange Providers
On behalf of MCI Telecommunications Corporation.

Before the Michigan Public Service Commission
Case No. U-11280
In the Matter, on the Commission's Own Motion, to consider the total service long run incremental costs and to determine the prices for unbundled network elements, interconnection services, resold services, and basic local exchange services for Ameritech Michigan
On behalf of MCI Telecommunications Corporation.

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Before the Michigan Public Service Commission
Case No. U-11366
In the matter of the application under Section 310(2) and 204, and the complaint under Section 205(2) and 203, of MCI Telecommunications Corporation against AMERITECH requesting a reduction in intrastate switched access charges
On behalf of MCI Telecommunications Corporation.

Before the Michigan Public Service Commission
Case No. U-13531
In the matter, on the Commission's own motion, to review the costs of telecommunications services provided by SBC Michigan
On behalf of AT&T, Worldcom, Inc., McLeodUSA and TDS Metrocom.

Before the Michigan Public Service Commission
Case No. U-11831
In the Matter of the Commission's own motion, to consider the total service long run incremental costs for all access, toll, and local exchange services provided by Ameritech Michigan
On behalf of MCIWorldCom, Inc.

Before the Michigan Public Service Commission
Case No. U-11830
In the matter of Ameritech Michigan's Submission on Performance Measures, Reporting, and Benchmarks, Pursuant to the October 2, 1998 Order in Case No. U-11654
On behalf of Covad Communications, McLeodUSA Telecommunications Services, Inc., LDMI Telecommunications Inc., Talk America Inc., and XO Communications Services, Inc.

Before the Michigan Public Service Commission
MPSC Case No. U-14952
In the matter of the formal complaint of TDS Metrocom, LLC, LDMI, Telecommunications, Inc and XO Communications Services, Inc against Michigan Bell Telephone Company, d/b/a AT&T Michigan, or in the alternative, an application.
On Behalf of TDS Metrocom, LLC, LDMI, Telecommunications, Inc and XO Communications Services, Inc.

Before the Minnesota Public Utilities Commission
PUC Docket No. P-442, 421, 3012 /M-01-1916
In Re Commission Investigation Of Qwest's Pricing Of Certain Unbundled Network Elements,
On behalf of Otter Tail Telecom, Val-Ed Joint Venture D/B/A 702 Communications, McLeodUSA, Eschelon Telecommunications, USLink.

Before the Minnesota Public Utilities Commission
PUC Docket No . P-421/AM-06-713
OAH Docket No. 3-2500-17511-2
In the Matter of Qwest Corporation's Application for Commission Review of TELRIC rates Pursuant to 47 U.S.C. § 251
On Behalf of Integra Telecom of Minnesota, Inc.; McLeodUSA Telecommunications Services, Inc.; POPP.com, Inc.; DIECA Communications, Inc., d/b/a Covad Communications Company; TDS Metrocom; and XO Communications of Minnesota, Inc.

Before the Minnesota Public Utilities Commission
PUC Docket #P-421/CI-05-1996
OAH Docket No. 12-2500-17246-2
In the Matter of a Potential Proceeding to Investigate the Wholesale Rate Charged by Qwest
On behalf of Integra Telecom of Minnesota, Inc., McLeodUSA Telecommunications Service, Inc., POPP.com, Inc., DIECA Communications, Inc. d/b/a Covad Communications Company, TDS Metrocom, and XO Communications of Minnesota, Inc.

Before the New Jersey Board of Public Utilities
Petition of Focal Communications Corporation of New Jersey For Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Bell Atlantic
On behalf of Focal Communications Corporation of New Jersey.

Before the New Jersey Board of Public Utilities
Docket No. TO00060356
I/M/O the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic-New Jersey, Inc.
On behalf of WorldCom, Inc.

Before the New Jersey Board of Public Utilities
Docket No. TO03090705
In The Matter, The Implementation Of the Federal Communications Commission's Triennial Review Order
On Behalf of Conversent Communications of New Jersey, LLC

Before the New Jersey Board of Public Utilities
Docket No. TX08090830
In the Matter of the Board's Investigation and review of Local Exchange Carrier Intrastate Access Rates
On behalf of One Communications, PAETEC Communications, Inc., US LEC of Pennsylvania, LLC, Level3 Communications, LLC, and XO Communications Services, Inc.

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Before The New Mexico State Corporation Commission
Docket No. 96-307-TC
Brooks Fiber Communications of New Mexico, Inc. Petition for Arbitration
On behalf of Brooks Fiber Communications of New Mexico, Inc.

Before The New Mexico State Corporation Commission
Utility Case No. 3495, Phase B
In the matter of the consideration of costing and pricing rules for OSS, collocation, shared transport, non-recurring charges, spot frames, combination of network elements and switching.
On behalf of the Commission Staff.

Before the New York Public Service Commission
Case Nos. 95-C-0657, 94-C-0095, 91-C-1174
Commission Investigation into Resale, Universal Service and Link and Port Pricing
On behalf of MCI Telecommunications Corporation.

Before the New York Public Service Commission
Case 99-C-0529
In the Matter of Proceeding on Motion of the Commission To Reexamine Reciprocal Compensation
On Behalf Of Cablevision LightPath, Inc.

Before the New York Public Service Commission
Case 98-C-1357
Proceeding on the Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements
On behalf of Corecomm New York, Inc.

Before the New York Public Service Commission
Case 98-C-1357
Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements
On behalf of MCIWorldCom.

Before the State Of New York Public Service Commission
CASE 02-C-1425
In The Matter, Proceeding on Motion of the Commission to Examine the Processes, and Related Costs of Performing Loop Migrations on a More Streamlined (e.g., Bulk) Basic
On Behalf of Conversent Communications of New York, LLC

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Before the Public Utilities Commission of Ohio
Case No. 96-888-TP-ARB
In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Ameritech Ohio
On behalf of MCI Telecommunications Corporation.

Before the Public Utilities Commission of Ohio
Case No. 96-922-TP-UNC.
In the Matter of the Review of Ameritech Ohio's Economic Costs for Interconnection, Unbundled Network Elements, and Reciprocal Compensation for Transport and Termination of Local Telecommunications Traffic
On behalf of MCI Telecommunications Corporation.

Before the Public Utilities Commission of Ohio
Case No. 00-1368-TP-ATA
In the Matter of the Review of Ameritech Ohio's Economic Costs for Interconnection, Unbundled Network Elements, and Reciprocal Compensation for Transport and Termination of Local Telecommunications Traffic. Case No. 96-922-TP-UNC and In the Matter of the Application of Ameritech Ohio for Approval of Carrier to Carrier Tariff
On behalf of MCIWorldCom and ATT of the Central Region.

Before the Public Utilities Commission of Ohio
Case No. 97-152-TP-ARB
In the Matter of the Petition of MCI Telecommunications Corporation for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Cincinnati Bell Telephone Company
On behalf of the MCI Telecommunications Corporation

Before the Public Utility Commission of Ohio
Case No. 02-1280-TP-UNC
In the Matter of the Review of SBC Ohio's TELRIC Costs for Unbundled Network Elements
On Behalf of MCImetro Access Transmission Services, LLC, McLeodUSA Telecommunications Services, Inc., Covad Communications Company, XO Ohio, Inc., NuVox Communications of Ohio, Inc.

Before the Public Utility Commission of Ohio
Case No. 08-45-TP-ARB
In the Matter of the Petition of Communication Options, Inc. for Arbitration of Interconnection Rates, Terms and Conditions and Related Arrangements with United Telephone Company of Ohio dba Embarq Pursuant to Section 252(b) of The Telecommunications Act of 1996
On Behalf of Communications Options, Inc.

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Before the Pennsylvania Public Utility Commission
Docket No. I-00940035
In Re: Formal Investigation to Examine Updated Universal Service Principles and Policies for telecommunications Services in the Commonwealth Interlocutory order, Initiation of Oral Hearing Phase
On behalf of MCI Telecommunications Corporation.

Before the Pennsylvania Public Utility Commission
Docket No. M-0001352
Structural Separation of Verizon
On behalf of MCI WorldCom.

Before the Puerto Rico Telecommunications Regulatory Board
Docket No. 97-0034-AR
Petition for Arbitration Pursuant to 47 U.S.C. & (b) and the Puerto Rico Telecommunications Act of 1996, regarding Interconnection Rates Terms and Conditions with Puerto Rico Telephone Company
On behalf of Cellular Communications of Puerto Rico, Inc.

Before the Public Service Commission of South Carolina
Dockets Nos. 2008-325-C, 2008-326-C, 2008-327-C, 2008-328-C, and 2008-329-C
In Re: Docket No. 2008-325-C - Application of Time Warner Cable Information Services (South Carolina), LLC d/b/a Time Warner Cable to Amend its Certificate of Public Convenience and Necessity to Provide Telephone Services in the Service Area of Farmers Telephone Cooperative, Inc. and for Alternative Regulation.
On Behalf of Time Warner Cable

Before the Public Utility Commission of South Dakota
Docket TC07-117
In the Matter of the Petition of Midcontinent Communications for the Approval of its Intrastate Switched Access Tariff and for an Exemption from Developing Company-Speific Cost-Based Switched Access Rates
On Behalf of Midcontinent Communications, Inc.

Before the State of Rhode Island and Providence Plantations Public Utilities Commission
Docket No. 2252
Comprehensive Review of Intrastate Telecommunications Competition
On behalf of MCI Telecommunications Corporation.

Before the State of Rhode Island and Providence Plantations Public Utilities Commission
Docket Nos. 3550 and 2861
In The Matter, Implementation of the Requirements of the FCC's Triennial Review Order ("TRO")
On behalf of Conversent Communications of Rhode Island, LLC

Before the Tennessee Public Service Commission
Docket No. 96-00067
Avoidable Costs of Providing Bundled Services for Resale by Local Exchange Telephone Companies
On behalf of MCI Telecommunications Corporation.

Before the Public Utility Commission of Texas
Docket No. 7790
Petition of the General Counsel for an Evidentiary Proceeding to Determine Market Dominance
On behalf of the Public Utility Commission of Texas.

Before the Public Utility Commission of Texas
Docket No. 8665
Application of Southwestern Bell Telephone Company for Revisions to the Customer Specific Pricing Plan Tariff
On behalf of the Public Utility Commission of Texas.

Before the Public Utility Commission of Texas
Docket No. 8478
Application of Southwestern Bell Telephone Company to Amend its Existing Customer Specific Pricing Plan Tariff: As it Relates to Local Exchange Access through Integrated Voice/Data Multiplexers
On behalf of the Public Utility Commission of Texas.

Before the Public Utility Commission of Texas
Docket No. 8672
Application of Southwestern Bell Telephone Company to Provide Custom Service to Specific Customers
On behalf of the Public Utility Commission of Texas.

Before the Public Utility Commission of Texas
Docket No. 8585
Inquiry of the General Counsel into the Reasonableness of the Rates and Services of Southwestern Bell Telephone Company
On behalf of the Public Utility Commission of Texas.

Before the Public Utility Commission of Texas
Docket No. 9301
Southwestern Bell Telephone Company Application to Declare the Service Market for CO LAN Service to be Subject to Significant Competition
On behalf of the Public Utility Commission of Texas.

Before the Public Utility Commission of Texas
Docket No. 10382
Petition of Southwestern Bell Telephone Company for Authority to Change Rates
On behalf of the Public Utility Commission of Texas.

Before the Public Utility Commission of Texas
Docket No. 14658
Application of Southwestern Bell Telephone Company, GTE Southwest, Inc., and Contel of Texas, Inc. For Approval of Flat-rated Local Exchange Resale Tariffs Pursuant to PURA 1995 Section 3.2532
On behalf of Office of Public Utility Counsel of Texas.

Before the Public Utility Commission of Texas
Docket No. 14658
Application of Southwestern Bell Telephone Company, GTE Southwest, Inc., and Contel of Texas, Inc. For Interim Number Portability Pursuant to Section 3.455 of the Public Utility Regulatory Act
On behalf of Office of Public Utility Counsel of Texas.

Before the Public Utility Commission of Texas
Docket Nos. 16226 and 16285
Application of AT&T Communications for Compulsory Arbitration to Establish an Interconnection Agreement Between AT&T and Southwestern Bell Telephone Company, and Petition of MCI for Arbitration under the FTA96
On behalf of AT&T and MCI.

Before the Public Utility Commission of Texas
Docket No. 21982
Proceeding to examine reciprocal compensation pursuant to section 252 of the Federal Telecommunications of 1996
On behalf of Taylor Communications.

Before the Public Utility Commission of Texas
Docket No. 25834
Proceeding on Cost Issues Severed from PUC Docket 24542
On behalf of AT&T and MCIMetro.

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Before the Public Utility Commission of Texas
PUC Docket No. 31831
Staff's Petition to Determine whether Markets of Incumbent Local Exchange Carriers (ILECs) Should Remain Regulated
On Behalf of the Office of Public Utility Counsel

Before the Public Utility Commission of Texas
PUC Docket No. 34723
Petition for Review of Monthly Per-Line Support Amounts from the Texas High Cost Universal Service Plan Pursuant to PURA § 56.031 and P.U.C. Subst. R. 26.403
On Behalf of the Office of Public Utility Counsel

Before the Public Utility Commission of Texas
Docket No. 33323
Petition of UTEX Communications Corporation for Post-Interconnection Dispute resolution with AT&T Texas and petition of AT&T Texas for Post Interconnection Dispute Resolution with UTEX Communications Corporation,
On Behalf of UTEX Communications Corporation
10, 2007

Before the Public Utility Commission of Texas
SOAH Docket No. 473-07-1365
PUC Docket No. 33545
Application of McLeodUSA Telecommunications Services, Inc. for Approval of Intrastate Switched Access rates Pursuant to PURA Section 52.155 and PUC Subst. R. 26.223
On behalf of McLeodUSA Telecommunications Services

Before the Utah public Service Commission
Docket No. 01-049-85
In the Matter of the Determination of the Costs Investigation of the Unbundled Loop of Qwest Corporation, Inc.
On behalf of AT&T and WorldCom.

Before the Public Service Commission of Utah
Docket No. 09-049-37
In the Matter of the Complaint of Qwest Corporation against McLeodUSA Telecommunications Services, Inc., d/b/a PAETEC Business Services.
On Behalf of McLeodUSA Telecommunications Services, Inc.

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Before the Vermont Public Service Board
Docket No. 5713
Investigation into NET's tariff filing re: Open Network Architecture, including the Unbundling of NET's Network, Expanded Interconnection, and Intelligent Networks
On behalf of MCI Telecommunications Corporation.

Before the Washington Utilities and Transportation Commission
Docket No. UT-090892
Qwest Corporation (Complainant) v. McLeodUSA Telecommunications Services, Inc., d/b/a PAETEC Business Services (Respondent).
On Behalf of McLeodUSA Telecommunications Services, Inc.

Before the Public Service Commission of Wisconsin
Cause No. 05-TI-138
Investigation of the Appropriate Standards to Promote Effective Competition in the Local Exchange Telecommunications Market in Wisconsin
On behalf of MCI Telecommunications Corporation.

Before the Public Service Commission of Wisconsin
Docket 670-TI-120
Matters relating to the satisfaction of conditions for offering interLATA services (Wisconsin Bell, Inc. d/b/a Ameritech Wisconsin)
On behalf of MCI Telecommunications Corporation.

Before the Public Service Commission of Wisconsin
Docket Nos. 6720-MA-104 and 3258-MA-101
In the Matter of MCI Telecommunications Corporation Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Wisconsin Bell, Inc. d/b/a Ameritech Wisconsin
On behalf of MCI Telecommunications Corporation.

Before the Public Service Commission of Wisconsin
Docket No. 05-TI-349
Investigation Into The Establishment of Cost-Related Zones For Unbundled Network Elements,
On behalf of AT&T Communications of Wisconsin, McLeodUSA Telecommunications Services, Inc., TDS MetroCom, Inc., and Time Warner Telecom.

Before the Public Service Commission of Wisconsin
Docket No. 6720-TI-161
Investigation into Ameritech Wisconsin's Unbundled Network Elements
On Behalf Of AT&T Communications of Wisconsin, Inc., WorldCom, Inc., Rhythms Links, Inc., KMC Telecom, Inc., and McLeodUSA ("CLEC Coalition")

AFFIDAVITS AND DECLARATIONS SUBMITTED TO THE FEDERAL COMMUNICATIONS COMMISSION

Before the Federal Communications Commission
File No. EB-04-MD-006.
EarthLink, Inc. (Complainant) v. SBC Communications Inc., SBC Advanced Solutions, Inc. (Defendants)
On Behalf of Earthlink, Inc.

Before the Federal Communications Commission
CC Docket No. 04-223
In the Matter of Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Omaha Metropolitan Statistical Area
Declaration on Behalf of McLeodUSA, Inc.

Before the Federal Communications Commission
CC Docket No. 01-92
In the Matter of Developing a Unified Intercarrier Compensation Regime
Declaration on behalf of NuVox Communications

Before the Federal Communications Commission
CC Docket No. 01-92
In the Matter of Developing a Unified Intercarrier Compensation Regime
On Behalf of Cavalier Telephone, Inc.

Before the Federal Communications Commission
WC Docket No. 05-337 CC Docket No. 96-45 WC Docket No. 03-109 WC Docket No. 06-122 CC Docket No. 99-200 CC Docket No. 96-98 CC Docket No. 01-92 CC Docket No. 99-68 WC Docket No. 04-36
In the Matter of High-Cost Universal Service Support Federal-State Joint Board on Universal Service Lifeline and Link Up Universal Service Contribution Methodology, Numbering Resource Optimization Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, Developing a Unified Intercarrier Compensation Regime, Intercarrier Compensation for ISP-Bound Traffic IP-Enabled Services
On behalf of PAETEC

Before the Federal Communications Commission
WC Docket No. 07-97
In the Matter of Petitions of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Denver, Minneapolis-St. Paul, Phoenix, and Seattle Metropolitan Statistical Areas
On Behalf of PAETEC

Before the Federal Communications Commission
WC Docket No. 09-223
In the Matter of: Cbeyond, Inc. Petition for Expedited Rulemaking to Require Unbundling of Hybrid, FTTH, and FTTC Loops Network Elements Pursuant to 47 U.S.C. §251(c)(3) Of the Act
On behalf of Covad Communications, Inc.

Before the Federal Communications Commission
GN Docket Nos. 09-47, 09-51, 09-137
Comments Sought on Broadband Study Conducted by the Berkman Center for Internet and Society, NBP Public Notice #13
On Behalf of Covad Communications Company

MISCELLANEOUS

U.S. District Court, Northern District of Illinois
Eastern Division
Case No. 05-C-6250
Cingular Wireless, LLC, a Delaware Limited Liability Company V Omar Ahmad
On behalf of Omar Ahmad.

Ingham County Circuit Court
Case No. 04-689-CK
T&S Distributors, LLC Custom Software, Inc., Arq, Inc., Absolute Internet, Inc., CAC Medianet, Inc,. ACD Telecom, Inc., and Telnet Worldwide, Inc. V. Michigan Bell Telephone Company, d/b/a SBC Michigan.
On Behalf of ACD Telecom, Inc. and Telnet Worldwide, Inc.

Before the Michigan House Committee on Energy and Technology
Presentation on House Bills 4257, August 2009
On Behalf of Michigan Internet and Telecommunications Alliance

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd	Chair
J. Dennis O'Brien	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink	Docket No. P-421, et al./PA-10-456

EXHIBIT AHA-2

TO THE

DIRECT TESTIMONY OF DR. AUGUST H. ANKUM

ON BEHALF OF

CBEYOND COMMUNICATIONS, LLC, CHARTER FIBERLINK CCO, LLC, INTEGRA TELECOM, INC., LEVEL 3 COMMUNICATIONS, LLC, MCLEODUSA TELECOMMUNICATIONS SERVICES, INC., d/b/a PAETEC BUSINESS SERVICES, TDS METROCOM, LLC, TW TELECOM OF MINNESOTA, LLC, ORBITCOM, INC. AND POPP.COM

August 19, 2010

Exhibit AHA-2

THE PROMISES VS. REALITIES OF RECENT ILEC MERGERS AND ACQUISITIONS

		Broadband / New Services Deployments		Service Quality	
Transaction	**Closing Date**	**Pre-Merger Claims**	**Post-Merger Reality**	**Pre-Merger Claims**	**Post-Merger Reality**
Carlyle Group's Acquisition of Verizon-Hawaii (aka Hawaiian Telcom)	May 2005	"In short order we will offer new services to our customers, including expanded broadband..." Carlyle Press Release 5/21/04	From 2006 through 3Q 2008, added only 3,247 net retail broadband lines Hawaiian Telcom 2007 Form 10-K and 3Q2008 10-Q	"Applicants also allude to improved customer service that will be achieved through investment in state-of-the-art back office systems." HI PUC Order No. 21696, at 20	"Largely because of impacts from this cutover, Hawaiian Telcom also experienced very significant slow-downs in call answer and handling times in its customer contact centers and errors in its billing during this time [7/06—9/07]" HI PUC Annual Report 2008-2009, at 58.
FairPoint's Acquisition of Verizon operations in ME, NH, and VT	March 2008	Will invest to expand offering of LD, DSL, web-hosting, and hosted e-mail services in region. FCC Application. at 17 "FairPoint plans to increase broadband availability from current levels in Maine, New Hampshire, and Vermont within twelve months after the completion of the merger…" FCC Application at 18	Reorganization Plan includes delays/cut-backs to broadband deployment commitments, foregoes cap on DSL rates "I am concerned that FairPoint has used the bankruptcy proceeding as an opportunity to renege on its promises to Maine consumers especially in the area of broadband build out." Dissent of Commissioner Viafades, MPUC Order 7/6/10	"...will enhance service quality and promote competition… FCC Application at 18	Retail -- Severe service quality declines, 2009 trigger of maximum payment under Retail SQ Plan. VT PSB Order 6/28/10 at 10 Wholesale -- OSS failures, order fall-out and manual handling. *Id.* at 68-69

		Broadband / New Services Deployments		**Service Quality**	
Transaction	**Closing Date**	**Pre-Merger Claims**	**Post-Merger Reality**	**Pre-Merger Claims**	**Post-Merger Reality**
Frontier's Acquisition of Verizon operations in 14 states	July 2010	"Frontier believes that… it can dramatically accelerate broadband penetration in these new markets over time." FCC Application at 3	Too early to assess	"this transaction will be seamless for retail and wholesale customers" FCC Application at 4	Wholesale OSS failures, ordering delays, under-staffed Access Order centers, trouble report backlogs
CenturyTel-Embarq Merger	July 2009	"…consumers will also benefit from more rapid deployment of advanced services, including IPTV and next-generation broadband-based services" FCC Application at 4	Separately, CT and Embarq added 185,000 broadband lines in 2008; in 2009, the merged company added 191,000 – just 6,000 lines more. CT and Embarq Form 10-Ks for 2008, 2009	"the proposed transaction will not disrupt services to customers of CenturyTel and Embarq" FCC Application at 7	CenturyLink seeks waiver of FCC's 1 bus.-day number porting req't. CL Petition filed 6/7/10 tw telecom and Socket Telecom experience EASE system failures beginning in late 2009. 7/12/10 Comments to FCC at 29-30

		Job Creation		**Financial Stability/Performance**	
Transaction	**Closing Date**	**Pre-Merger Claims**	**Post-Merger Reality**	**Pre-Merger Claims**	**Post-Merger Reality**
Carlyle Group's Acquisition of Verizon-Hawaii (aka Hawaiian Telcom)	May 2005	"...we expect to add many new jobs after the acquisition." Carlyle Press Rel. 5/21/04	March 2010, approx. 1450 employees -- 15% decline from pre-sale level Form 10-A 5/16/10 and Honolulu Starbulletin, 10/14/04	"Carlyle has a track record of successful telecommunications investments…" Carlyle Press Rel. 5/21/04	Dec 2008, Chapter 11 Bankruptcy Filing Annual RoR as of June 2009: −29.3%

		Job Creation		Financial Stability/Performance	
Transaction	**Closing Date**	**Pre-Merger Claims**	**Post-Merger Reality**	**Pre-Merger Claims**	**Post-Merger Reality**
FairPoint's Acquisition of Verizon operations in ME, NH, and VT	March 2008	"Preserve 3000 In-region jobs, Add 600 New Jobs, Add 3 New In-region Local Service Centers"	Chapter 11 Reorganization Plan defers raises, creates task force to cut operating expenses by $-millions. Nashua Telegraph 2/9/10	"the proposed transaction will further enhance FairPoint's ability to serve customers in these states by improving its overall financial flexibility and stability" FCC Appln. at 19	Oct 2009, Chapter 11 Bankruptcy Filing "FairPoint's actual performance throughout 2008 and 2009 turned out to be worse than the Board's most pessimistic assumptions." VT PSB Order 6/28/10 at 58
Frontier's Acquisition of Verizon operations in 14 states	July 2010	"Frontier will operate a regional operations headquarters in Charleston, West Virginia, creating and preserving jobs..." FCC Appln., Public Interest Stmt. at 22	Pending, too early to assess	"the transaction will transform Frontier by strengthening its balance sheet. Once the transaction closes, Frontier expects that its ratio of debt to EBITDA will decrease from 3.8 to 2.6…"	"Our net debt to adjusted EBITDA ratio at quarter end was 3.9x, comparable to Q4 2009." Frontier 1Q2010 Earnings Call Transcript 5/6/10 (Seeking Alpha.com)
CenturyTel-Embarq Merger	July 2009	No commitments made	CL "management has cut about 1,000 from its 20,000 employee base." *CenturyLink lays off another 600 Embarq workers*, Fierce Telecom 1/11/10	"the merger will … help ensure the future financial stability of the combined enterprise." FCC Appln. at 4	"The negative rating outlook …reflects the considerable execution risks in integrating a sizeable company so soon after another large acquisition (Embarq in July 2009)" Moody's, Rating Action 4/22/10

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd	Chair
J. Dennis O'Brien	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink	Docket No. P-421, et al./PA-10-456

EXHIBIT AHA-3

TO THE

DIRECT TESTIMONY OF DR. AUGUST H. ANKUM

ON BEHALF OF

CBEYOND COMMUNICATIONS, LLC, CHARTER FIBERLINK CCO, LLC, INTEGRA TELECOM, INC., LEVEL 3 COMMUNICATIONS, LLC, MCLEODUSA TELECOMMUNICATIONS SERVICES, INC., d/b/a PAETEC BUSINESS SERVICES, TDS METROCOM, LLC, TW TELECOM OF MINNESOTA, LLC, ORBITCOM, INC. AND POPP.COM

August 19, 2010

Exhibit AHA-3

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Systems Integration	"Specific integration initiatives and associated expenditures will not be fully developed until the transaction is complete, and the necessary decisions have been made on how to best integrate the two companies. It is anticipated the combined company will incur integration costs related to system and customer conversions (including hardware and software costs) and certain employee-related severance costs."	Ken Buchan	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR #47 Integra CO DR #47 PAETEC IA DR # 47 Integra UT DR # 47 Integra WA DR # 47
	"Upon merger closing, CenturyLink does not anticipate any immediate changes to the Qwest CLEC OSS systems. Integration planning is in the early stages and decisions have not been made at this time…Wholesale customers will be provided advance notification of any systems changes that occur post close."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 23 PAETEC IA DR # 23 Integra CO DR # 23 Integra UT DR # 23 Integra WA DR # 23
	"Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans for specific changes to the Qwest or CenturyLink Operations Support Systems (OSS) have not been fully developed."	Mike Hunsucker	June 25, 2010	Washington UTC Staff DR # 84
	"CenturyLink has not yet conducted the detailed analysis necessary to compare and contrast Qwest's and CenturyLink's OSS systems."	John Felz	July 13, 2010	Montana Consumer Counsel DR # 61

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DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Systems Integration	"Integration planning is in the early stages and decisions on wholesale OSS systems have not been made at this time."	Mike Hunsucker	July 2, 2010	Oregon PUC Staff DR # 60
	"Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans for specific changes to any processes or systems that CLECs currently utilize in purchasing wholesale services from Qwest have not been developed."	Mike Hunsucker	June 25, 2010	Washington UTC Staff Data Request #s 85, 87
	"No decisions on integration can reasonably be made until after the transaction is closed. At this time, system integration plans for the proposed transaction with Qwest, including plans for billing system integration, have not been fully developed."	John Felz	June 25, 2010	Washington UTC Staff DR # 90
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest billing platform. A detailed comparison of CenturyLink's and Qwest's Billing Support Systems has not been conducted at this time…The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, so changes could be expected over time."	Melissa Closz	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 34 Integra CO DR # 34 PAETEC IA DR # 34 Integra UT DR # 34 Integra WA DR # 34

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DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS

Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Systems Integration	"Upon merger closing, there will be no immediate changes to Qwest's or CenturyLink's Provisioning Systems. CenturyLink has not evaluated its processes and compared them to Qwest's processes at this time. Integration planning is in the early stages and decisions have not been made at this time…The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, so changes could be expected over time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (MN, UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 35h Integra CO DR # 35h PAETEC IA DR # 35h Integra MN DR # 2-35h Integra UT DR # 35(h) Integra WA DR # 35h
	"A detailed comparison of CenturyLink's and Qwest's repair processes has not been conducted at this time. System integration plans for the proposed transaction with Qwest have not been fully developed."	Mark Akason & Mike Jewell	July 23, 2020 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	PAETEC IA DR # 31 Integra MN DR # 31 Integra UT DR # 31 Integra WA DR # 31
	"A detailed comparison of CenturyLink's and Qwest's trouble ticket initiation processes has not been conducted at this time. System integration plans for the proposed transaction with Qwest have not been fully developed. In fact, complete integration plans cannot be developed until the merger is concluded."	Mark Akason & Mike Jewell	July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	PAETEC IA DR # 30 Integra MN DR # 30 Integra UT DR # 30 Integra WA DR # 30
	"Upon merger closing, CenturyLink does not anticipate immediate changes to the Qwest CLEC trouble reporting system. A detailed comparison of CenturyLink's and Qwest's trouble reporting systems has not been conducted at this time."	Mark Harper (AZ, IA) Ted Hankins (CO)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010	Integra AZ DR # 32 Integra CO DR # 32 PAETEC IA DR # 32

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
		Ann Prockish (UT) John Felz (WA)	(IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra UT DR # 32 Integra WA DR # 32
	"Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies and their respective call databases, plans for specific changes to the Qwest and CenturyLink Call Management Services Data Base, Local Number Portability, and Line Information Data Base, if any, have not been fully developed."	John Felz	June 25, 2010	Washington UTC Staff DR # 82
	"Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans for specific changes to the Qwest E911 systems, if any, have not been developed."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 23, 2010 (CO) July 16, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Washington UTC Staff DR # 83
Systems Integration	"At this time decisions regarding the systems or platforms that will be used post-merger have not been made."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 4 PAETEC IA DR # 4 Integra CO DR # 4 Integra UT DR # 4 Integra WA DR # 4
	"Upon merger closing CenturyLink does not anticipate any	Mark Harper	July 20, 2010	Integra AZ DR # 43

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Systems Integration	immediate changes to the Qwest preorder gateway. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	(AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	(AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 43 PAETEC IA DR # 43 Integra UT DR # 43 Integra WA DR # 43
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest CLEC order entry system. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 44 Integra CO DR # 44 PAETEC IA DR # 44 Integra UT DR # 44 Integra WA DR # 44
Operations Integration	"A detailed integration planning statement indicating specific dates and events has not been developed. Detailed planning processes will begin on or about the close of the merger and will involve the review of existing systems and practices."	CenturyLink response	June 16, 2010	Iowa Office of Consumer Advocate DR # 1-012A
	"Identification of 'best practices' associated with the integration of CenturyLink and Qwest operations will be completed as part of the detailed integration planning efforts. Until the integration teams are formed, and the detailed data gathering process can be completed, an analysis regarding the identification and/or adoption of 'best practices' is not available."	Mark Gast	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT)	Integra AZ DR # 52(g) Integra CO DR # 52(g) PAETEC IA DR # 52(g) Integra MN DR # 52(g) Integra UT DR # 52(g)

Exhibit AHA-3

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS

Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Operations Integration			July 16, 2010 (WA)	Integra WA DR # 52(g)
	"Until the transaction is complete, and the necessary decisions have been made on how to best to coordinate and/or integrate the Qwest and CenturyLink operating entities, specific plans related to the wholesale operations of CenturyLink and Qwest cannot be developed."	John Felz	July 13, 2010	Montana Consumer Counsel DR # 62
	"No decisions on integration can reasonably be made until after the transaction is closed. Before the company can make a determination on any changes in Network Operations Centers (NOC), the company needs more time and data to assess the work being performed at various NOCs, the appropriate location for centers in order to best serve the needs of customers and the scope of those centers."	John Felz	July 1, 2010	Washington UTC Staff DR # 107
	"Until the transaction has been completed and the necessary decisions have been made, specific details regarding the implementation (who? what? where? when? why? how?) of these planning assumptions will not be available."	Jeff Glover	June 4, 2010	Arizona Corporation Commission Staff DR # 1-001
	"Integration planning is in the early stages and decisions on [wholesale] personnel, location of [wholesale] personnel, etc. have not been made at this time . . . ."	Mike Hunsucker	July 2, 2010	Oregon PUC Staff DR # 54

Exhibit AHA-3

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Operations Integration	"…upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest wholesale operations. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time. However, because the transaction results in the entirety of Qwest, including operations and systems, merging into and operating as a subsidiary of CenturyLink, it will allow a disciplined approach to reviewing systems and practices and will allow integration decisions to proceed in an orderly manner."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 46 Integra CO DR # 46 PAETEC IA DR # 46 Integra UT DR # 46 Integra WA DR # 46
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Firm Order Commitment dates. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time. System integration plans for the proposed transaction with Qwest have not been fully developed."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 64 Integra CO DR # 64 PAETEC IA DR # 64 Integra UT DR # 64 Integra WA DR # 64
	"A detailed comparison of CenturyLink's and Qwest's repair processes has not been conducted at this time. System integration plans for the proposed transaction with Qwest have not been fully developed."	Mark Akason & Mike Jewell	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT)	Integra AZ DR # 31 PAETEC IA DR # 31 Integra CO DR # 31 Integra UT DR # 31

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Operations Integration	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest CLEC ASR and LSR processes. Integration planning is in the early stages and decisions have not been made at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 26 Integra CO DR # 26 PAETEC IA DR # 26 Integra UT DR # 26 Integra WA DR # 26
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Standard Interval Guide. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Mark Harper (AZ, IA) Ann Prockish (MN, UT) John Felz (WA)	July 20, 2010 (AZ) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 82 PAETEC IA DR # 82 Integra MN DR # 82 Integra UT DR # 82 Integra WA DR # 82
	"Decisions regarding the locations of the remaining regional headquarters have not been made."	Ted Hankins (CO) Mark Harper (IA) Ann Prockish (MN, UT) John Felz (WA)	July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 147 PAETEC IA DR # 145 Integra MN DR # 147 Integra UT DR # 147 Integra WA DR # 147

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Operations Integration	"Upon merger closing CenturyLink does not anticipate any changes to the Qwest local number portability process. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Melissa Closz	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 155 Integra CO DR # 155 PAETEC IA DR # 153 Integra UT DR # 155 Integra WA DR # 155
	"Until the transaction is complete and necessary decisions have been made on how to best integrate the two companies, CenturyLink cannot project the timing or nature of changes, if any, to employees…"	John Felz	July 13, 2010	Montana Consumer Counsel DR # 66
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest CLEC trouble reporting processing. A detailed comparison of CenturyLink's and Qwest's locations and hours of operation has not been conducted at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 33 Integra CO DR # 33 PAETEC IA DR # 33 Integra UT DR # 33 Integra WA DR # 33
	"A more detailed management organization table for the post-merger business is not available at this time."	CenturyLink response	June 16, 2010	Iowa Office of Consumer Advocate DR # 1-001
	"Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans for 911 ordering and provisioning processes to be used have not been developed."	John Felz	July 1, 2010	Washington UTC Staff DR # 106

Exhibit AHA-3

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Change Management Process	"Upon merger closing, there will be no immediate changes to Qwest's or CenturyLink's Change Management Processes (CMP) or CMD [*sic*] documents. Integration plans for the proposed transaction with Qwest have not been fully developed. The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, so changes could be expected over time."	Melissa Closz	July 20, 2010 (AZ); July 19, 2010 (CO); July 23, 2010 (IA); July 8, 2010 (MN); July 20, 2010 (UT); July 16, 2010 (WA)	Integra AZ DR # 118 Integra CO DR # 118 PAETEC IA DR # 118 Integra MN DR # 118 Integra UT DR # 118 Integra WA DR # 118
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Product Catalogs. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 91 Integra CO DR # 91 PAETEC IA DR # 91 Integra UT DR # 91 Integra WA DR # 91
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Technical Publications. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 107 Integra CO DR # 107 PAETEC IA DR # 107 Integra UT DR # 107 Integra WA DR # 107

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Performance Assurance Plan	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest performance plans. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (MN, UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 61 Integra CO DR # 61 PAETEC IA DR # 61 Integra MN DR # 61 Integra UT DR # 61 Integra WA DR # 61
Wholesale Rates	"CenturyLink has not evaluated or reached any conclusions regarding this issue [whether CenturyLink will seek modification to any wholesale rates post-merger] at this time."	Ted Hankins (CO) Mark Harper (IA) Ann Prockish (MN, UT) John Felz (WA)	July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 86 PAETEC IA DR # 86 Integra MN DR # 86 Integra UT DR # 86 Integra WA DR # 86
	"The impact if any on wholesale rates cannot be determined until the transaction is complete and the necessary decisions have been made on how to best integrate the two companies."	Mark Gast	July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 52(l) PAETEC IA DR # 52(l) Integra MN DR # 52(l) Integra UT DR # 52(l) Integra WA DR # 52(l)

Exhibit AHA-3

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Wholesale Rates	"Upon merger closing there will be no immediate changes to Qwest's or CenturyLink's term and volume discount plans. CenturyLink has not evaluated or reached any conclusions concerning this issue at this time."	Mark Harper (AZ) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 88 Integra UT DR # 88 Integra WA DR # 88
	"CenturyLink has not evaluated or reached any conclusions concerning this issue [whether CenturyLink will seek reductions in cost-based wholesale rates due to reported synergy cost savings] at this time."	Ken Buchan	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 55(b) Integra CO DR # 55(b) PAETEC IA DR # 55(b) Integra MN DR # 55(b) Integra UT DR # 55(b) Integra WA DR # 55(b)
	"Upon merger closing there will be no immediate changes to Qwest's or CenturyLink's rates for wholesale services. CenturyLink has not evaluated or reached any conclusions regarding this issue [whether CenturyLink will seek wholesale rate modifications within 3 years of the merger] at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT)	Integra AZ DR # 86 Integra CO DR # 86 PAETEC IA DR # 86 Integra UT DR # 86

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DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Wholesale Rates	"The cost models to be utilized after the merger is complete have not been determined."	Christy Londerholm	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 94 Integra CO DR # 94 PAETEC IA DR # 94 Integra UT DR # 94 Integra WA DR # 94
	"Upon merger closing there will be no immediate changes to Qwest's rates for wholesale services. CenturyLink has not evaluated or reached any conclusions concerning future changes to Qwest's UNE rates at this time."	Mike Hunsucker	July 22, 2010	Oregon PUC Staff DR # 122
Wholesale Services	"CenturyLink has not evaluated or reached any conclusions regarding this issue [whether CenturyLink plans to discontinue any wholesale services post-merger] at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (MN, UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 96 Integra CO DR # 96 PAETEC IA DR # 96 Integra MN DR # 96 Integra UT DR # 96 Integra WA DR # 96

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DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Wholesale Services	"There will be no immediate changes to Qwest's current template interconnection agreements […] The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, so changes could be expected over time."	Diane Roth	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA)	Integra AZ DR #115 Integra CO DR # 115 PAETEC IA DR # 115
	"CenturyLink has not evaluated or reached any conclusions concerning this issue [the numerous "evergreen" ICAs with Qwest and CenturyLink's plans regarding those ICAs post-merger] at this time."	Ted Hankins (CO) Ann Prockish (MN, UT) Mark Harper (IA) John Felz (WA)	July 19, 2010 (CO) July 23, 2010 (IA) July 8,2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 117 PAETEC IA DR # 117 Integra MN DR # 117 Integra UT DR # 117 Integra WA DR # 117
	"There will be no immediate changes to Qwest's current template interconnection agreements. As the companies integrate operations post-merger, it is expected that the merged company will naturally gravitate toward consistent terms in a state…"	Diane Roth	July 20, 2010 (UT) July 16, 2010 (WA)	Integra UT DR # 115 Integra WA DR # 115
	"Upon merger closing there will be no immediate changes to Qwest's agreements […] The merger is intended to bring about improved efficiencies and practices in all parts of the combined company, so changes could be expected over time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT)	Integra AZ DR # 117 Integra CO DR # 117 PAETEC IA DR # 117 Integra UT DR # 117
	"CenturyLink has not evaluated or reached any conclusions regarding this issue [any subsequent service, term or price	Mark Harper (AZ, IA)	July 20, 2010 (AZ)	Integra AZ DR # 95

Exhibit AHA-3

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Wholesale Services	changes] at this time."	Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 95 PAETEC IA DR # 95 Integra UT DR # 95 Integra WA DR # 95
	"CenturyLink states that it has not made any determination on this issue [plans to retire copper] at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 104 Integra CO DR # 104 PAETEC IA DR # 104 Integra UT DR # 104 Integra WA DR # 104
	"Upon merger closing there will be no immediate changes to Qwest's or CenturyLink's intrastate or interstate tariffs. As far as future changes, CenturyLink has not evaluated or reached any conclusions regarding the issue at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT)	Integra AZ DR # 89 Integra CO DR # 89 PAETEC IA DR # 89 Integra UT DR # 90

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Wholesale Services	"CenturyLink has not evaluated or reached any conclusions regarding the issue [whether CenturyLink intends to adopt Qwest's intrastate and/or interstate access tariffs post-merger] at this time."	Ted Hankins (CO) Ann Prockish (MN) Mark Harper (IA) John Felz (WA)	July 19, 2010 (CO) July 23, 2010 (IA) July 8,2010 (MN) July 16, 2010 (WA)	Integra CO DR # 89 PAETEC IA DR # 89 Integra MN DR # 89 Integra WA DR # 89
	"CenturyLink has not evaluated or reached any conclusions regarding this issue [whether CenturyLink anticipates seeking modifications to its access terms, conditions or rates post-merger] at this time."	Ted Hankins (CO) Ann Prockish (MN, UT) Mark Harper (IA) John Felz (WA)	July 19, 2010 (CO) July 23, 2010 (IA) July 8,2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra CO DR # 90 PAETEC IA DR # 90 Integra MN DR # 90 Integra UT DR # 90 Integra WA DR # 90

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS

Issue	Response	CenturyLink Respondent Name	Response Date(s)	Data Request Information
Wholesale Services	"CenturyLink states that it has not made any determination on this issue [whether CenturyLink will seek forbearance from its obligations under section 251 of the Act] at this time."	Mark Harper (AZ) Ted Hankins (CO) Mark Harper (IA) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 99 Integra CO DR # 99 PAETEC IA DR # 99 Integra UT DR # 99 Integra WA DR # 99
	"A detailed comparison of CenturyLink's and Qwest's [collocation] processes has not been conducted at this time."	Ann Prockish (MN, UT) John Felz (WA)	July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra MN DR # 108 Integra UT DR # 108 Integra WA DR # 108
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest collocation procedures. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Ted Hankins (CO) Mark Harper (IA)	July 19, 2010 (CO) July 23, 2010 (IA)	Integra CO DR # 108 PAETEC IA DR # 108
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest collocations procedures. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Mark Harper (AZ, IA) Ann Prockish (UT)	July 20, 2010 (AZ) July 23, 2010 (IA) July 20, 2010	Integra AZ DR # 108 PAETEC IA DR # 108 Integra UT DR # 108

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Wholesale Services		John Felz (WA)	(UT) July 16, 2010 (WA)	Integra WA DR # 108
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest hot loop cut process. A detailed comparison of CenturyLink's and Qwest's processes has not been conducted at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 112 Integra CO DR # 112 PAETEC IA DR # 112 Integra UT DR # 112 Integra WA DR # 112
Wholesale Customer Service	"CenturyLink has not made any determination on this issue [whether CenturyLink plans to make changes to CLEC account and service manager assignments post-merger] at this time."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (MN, UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 93 Integra CO DR # 93 PAETEC IA DR # 93 Integra MN DR # 93 Integra UT DR # 93 Integra WA DR # 93
	"Upon merger closing CenturyLink does not anticipate any immediate changes to the Qwest Wholesale and CLEC support centers. At this time, a detailed comparison of CenturyLink's and Qwest's processes has not been conducted."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT)	Integra AZ DR # 67 Integra CO DR # 67 PAETEC IA DR # 67 Integra UT DR # 67

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
			July 16, 2010 (WA)	Integra WA DR # 67
Network Investment	"Until the transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans regarding network investment and appropriate balance sheet improvement (debt reduction) have not been developed. The analysis and decisions regarding how CenturyLink plans to best utilize its free cash flow will be completed as part of the detailed integration planning efforts."	Mark Gast	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 8, 2010 (MN) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 133 Integra CO DR # 133 PAETEC IA DR # 133 Integra MN DR # 133 Integra UT DR # 133 Integra WA DR # 133
	"CenturyLink currently does not have any specific plans for investments in Qwest's service areas post-merger."	Mark Harper (AZ, IA) Ted Hankins (CO) Ann Prockish (UT) John Felz (WA)	July 20, 2010 (AZ) July 19, 2010 (CO) July 23, 2010 (IA) July 20, 2010 (UT) July 16, 2010 (WA)	Integra AZ DR # 103b Integra CO DR # 103b PAETEC IA DR # 103b Integra UT DR # 103b Integra WA DR # 103
Broadband Deployment	"At this time, CenturyLink has not yet established any specific plans regarding Washington post-transaction broadband deployment."	John Felz	June 23, 2010	Washington UTC Staff DR # 55
	"Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies, specific [DSL] product and pricing plans cannot be evaluated and finalized."	John Felz	June 23, 2010	Washington UTC Staff DR # 60

DISCOVERY RESPONSES DEMONSTRATING THE SIGNIFICANT UNCERTAINTY RESULTING FROM THE PROPOSED TRANSACTION

EXCERPTS FROM THE APPLICANTS' RESPONSES TO DATA REQUESTS IN THE RELEVANT STATE COMMISSION REVIEW PROCEEDINGS				
Issue	**Response**	**CenturyLink Respondent Name**	**Response Date(s)**	**Data Request Information**
Broadband Deployment	"Projections for post-merger broadband deployment have not been developed."	John Felz	June 23, 2010	Oregon PUC Staff DR # 15
	"At this time, CenturyLink has not undertaken an analysis at a wire center level to identify impediments to reaching 100% DSL service availability…"	John Felz	July 13, 2010	Montana Consumer Counsel DR # 54.
IPTV Deployment	"Plans for the introduction of specific new services such as IPTV in [Oregon, Washington] have not been fully developed at this point. Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies, specific product and service plans cannot be evaluated and finalized."	John Felz	June 23, 2010	Oregon PUC Staff DR # 33 Washington UTC Staff DR # 52

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd	Chair
J. Dennis O'Brien	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink	Docket No. P-421, et al./PA-10-456

EXHIBIT AHA-4

TO THE

DIRECT TESTIMONY OF DR. AUGUST H. ANKUM

ON BEHALF OF

CBEYOND COMMUNICATIONS, LLC, CHARTER FIBERLINK CCO, LLC, INTEGRA TELECOM, INC., LEVEL 3 COMMUNICATIONS, LLC, MCLEODUSA TELECOMMUNICATIONS SERVICES, INC., d/b/a PAETEC BUSINESS SERVICES, TDS METROCOM, LLC, TW TELECOM OF MINNESOTA, LLC, ORBITCOM, INC. AND POPP.COM

August 19, 2010

JOINT APPLICANTS' CLAIMS ABOUT ALLEGED BENEFITS RESULTING FROM THE MERGER COMPARED TO THEIR DISCOVERY RESPONSES

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Advanced Services Deployment	"…as we develop expanded broadband services, innovative IP products such as IPTV and other video choices, VoIP services, enhanced fiber-to-the-cell tower connectivity and other high bandwidth services."[1] "We need to have the national breadth and local depth to provide more new and innovative IP products such as IPTV and other video services, VoIP services, enhanced fiber-to-the-cell tower connectivity and other high bandwidth services."[2] "CenturyLink will be able to capitalize on its investments in and experience with Internet Protocol television to extend new competitive video offerings in former Qwest markets…[t]here is no reason to doubt that the companies will seek to capitalize on that investment."[3] "It creates a truly nationwide platform for high-speed internet deployment by merging Qwest's long-haul fiber network with CenturyLink's complementary long-haul fiber network and its core metropolitan rings…The combined network will…heighten the ability to advance the deployment of high speed Internet services	"Plans for the introduction of specific new services such as IPTV in [Oregon, Iowa, Washington] have not been fully developed at this point. Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies, specific product and service plans cannot be evaluated and finalized. Once the transaction closes, a review of the marketplace will be done to determine needs of the [Oregon, Iowa, Washington] market. This process also includes an assessment of the capabilities of existing Qwest infrastructure necessary to support advanced communications, data, and potentially entertainment services the combined company may chose to rollout in the future…"[8] "An estimated timeline for the deployment of IPTV in Arizona has not been completed."[9] "Projections for post-merger broadband deployment have not been developed."[10] "At this time, CenturyLink has not yet established any specific plans regarding Washington broadband investment…"[11] "Once the transaction closes, CenturyLink's operations and engineering team will be able to better assess the broadband capabilities of the existing Qwest infrastructure."[12] "CenturyLink will ***continue*** its current practice of evaluating the most appropriate technology, including use of FTTN…"[13] "At this time, CenturyLink has not yet established any specific plans for Montana broadband investment after completion of the merger. Once the merger is finalized, and the new local operating model has been implemented, individuals from the legacy Qwest and CenturyLink companies will assess the network infrastructure in Montana…"[14]

[1] Direct Testimony of John Jones, Colorado PUC Docket No. 10A-350T, May 27, 2010 ("Bailey CO Direct"), p. 9; Direct Testimony of John Jones, Iowa Board Docket No. SPU-2010-0006, May 24, 2010 ("Jones IA Direct"), p. 8; Direct Testimony of John Jones, Minnesota PUC Docket No. PA-10-456, June 14, 2010 ("Jones MN Direct"), p. 6; Direct Testimony of John Jones, Oregon PUC Docket No. UM 1484, May 21, 2010 ("Jones OR Direct"), p. 10; Direct Testimony of John Jones, Washington UTC Docket No. UT-100820, May 21, 2010 ("Jones WA Direct"), p. 8.

[2] McMillan AZ Direct, p. 9; Ferkin MT Direct, p. 7; Ferkin UT Direct, p. 7.

[3] Reply Comments of CenturyLink, Inc. and Qwest Communications International, Inc., WC Docket No. 10-110, July 27, 2010 ("Joint Applicants' FCC ReplyComments") , pp. i and 4-5.

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Advanced Services Deployment	as well as for the customer-desired 'triple play' of broadband, voice and video."[4] "The merger of these complementary and additive strengths, will increase the likelihood of bringing to market more advanced services and compelling choices for customers at an accelerated pace."[5] "the combined company's national footprint and healthy financial position will support the deployment of broadband and accelerated availability of advanced services throughout the expanded territory."[6]	"At this time, CenturyLink has not undertaken an analysis at a wire center level to identify impediments to reaching 100% DSL service availability…Once the merger is finalized, and the new local operating model has been implemented, individuals from the legacy Qwest and CenturyLink companies will assess the network infrastructure in Montana, including identification of any impediments to broadband deployment…"[15] "Broadband investment information is not separately tracked and therefore is not available."[16] "CenturyLink's review of the condition of Qwest's outside plant did not include any areas in Montana."[17] "CenturyLink personnel performed a field visit of Qwest facilities in Arizona. However, CenturyLink did not prepare a report regarding the condition or maintenance of the

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8 CenturyLink ("CL") response to ORPUC Staff Data Request ("DR") No. 33; CL response to Iowa Office of Consumer Advocate ("IAOCA") DR No. 004A; and CL response to WAUTC Staff DR No. 52.

9 CL response to ACC Staff DR No. 4.4.

10 CL response to ORPUC Staff DR No. 15.

11 CL response to WAUTC Staff DR No. 50; CL response to WAUTC Staff DR No. 55.

12 CL response to ACC Staff DR No. 2.34.

13 CL response to MCC DR No. 38c. (emphasis added)

14 CL response to Montana Consumer Counsel ("MCC") DR No. 38.

4 Direct Testimony of John Jones, Colorado PUC Docket No. 10A-350T, May 27, 2010 ("Jones CO Direct"), p. 9; Jones IA Direct, p. 9; Jones MN Direct, p. 7; Jones OR Direct, pp. 11-12; Jones WA Direct, pp. 8-9. See also, Direct Testimony of Kristen McMillan, Arizona Corporation Commission, Docket T-01051B-10-0194, May 24, 2010 ("McMillan AZ Direct"), p. 10; Direct Testimony of Jeremy Ferkin, Montana PSC Docket D2010.5.55, May 28, 2010 ("Ferkin MT Direct"), p. 8; and Direct Testimony of Jeremy Ferkin, Utah PSC Docket No. 10-049-16, May 27, 2010 ("Ferkin UT Direct"), p. 8; ("It creates a truly nationwide platform for high-speed internet deployment by merging Qwest's long-haul fiber network with CenturyLink's complementary long-haul fiber network and its core metropolitan rings…The combined network will…heighten the ability to ***compete for broadband*** Internet services as well as for the customer-desired 'triple play' of broadband, voice and video." Bold/italics text shows the difference between CenturyLink's Arizona testimony and Oregon testimony).

5 McMillan AZ Direct, p. 10; Jones CO Direct, p. 10; Jones IA Direct, p. 9; Jones MN Direct, p. 8; Ferkin MT Direct, p. 8; Jones OR Direct, p. 12; Ferkin UT Direct, p. 8; Jones WA Direct, p. 9.

6 Joint Applicants' FCC Reply Comments, p. 2.

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Advanced Services Deployment	"Current CenturyLink customers will benefit from Qwest's experience in building out its FTTN network."[7]	outside plant in the Qwest legacy service areas…As a result of the field visits, CenturyLink personnel did observe a greater proportion of aerial outside plant in rural areas but that it was well maintained with no major issues or concerns."[18] "CenturyLink did not complete any inspections of Qwest outside plant in Utah during the due diligence process."[19] "CenturyLink did not prepare any reports concerning the condition or maintenance of Qwest outside plan [sic] in Washington."[20] "CenturyLink has not developed any business cases regarding deployment of alternative broadband technologies such as Fixed Wireless in Washington."[21]
Network Investment	"From a financial standpoint, CenturyLink will have the scale and stability to make necessary, ongoing infrastructure investments needed to serve the next generation of consumers…"[22] "the resulting cost savings will be a significant advantage that will facilitate the combined	"CenturyLink states that currently [sic] does not have any specific plans for investments in Qwest's service areas post-merger."[24] "At this time, CenturyLink has not yet established any specific plans regarding [Iowa, Washington] investment. Once the merger is finalized, and the new local operating model has been implemented, individuals from the legacy Qwest and CenturyLink companies will assess the network infrastructure in [Iowa, Washington] and make any

15 CL response to MCC DR No. 54.

16 CL response to ORPUC Staff DR No. 13.

17 CL Response to MCC DR No. 72.

7 Direct Testimony of James Campbell, Arizona Corporation Commission Docket T-01051B-10-0194, May 24, 2010 ("Campbell AZ Direct"), p. 22; Direct Testimony of Charles Ward, Colorado PUC Docket No. 10A-350T, May 27, 2010 ("Ward CO Direct"), p. 24; Direct Testimony of Max, Phillips, Iowa Board Docket No. SPU-2010-0006, May 24, 2010 ("Phillips IA Direct"), p. 25; Direct Testimony of John Stanoch, Minnesota PUC Docket No. PA-10-456, June 14, 2010 ("Stanoch MN Direct"), p. 28; Direct Testimony of David Gibson, Montana PSC Docket D2010.5.55, May 28, 2010 ("Gibson MT Direct"), p. 16; Direct Testimony of Jerry Fenn, Utah PSC Docket No. 10-049-16, May 27, 2010 ("Fenn UT Direct"), p. 22; Direct Testimony of Mark Reynolds, Washington UTC Docket No. UT-100820, May 21, 2010 ("Reynolds WA Direct"), p. 24.

18 CL Response to Integra AZ DR No. 128.

19 CL response to Integra UT DR No. 128.

20 CL response to Integra WA DR No. 128.

21 CL Response to WAUTC Staff DR No. 58.

22 McMillan AZ Direct, p. 4; Jones CO Direct, p. 4; Jones IA Direct, p. 4; Jones MN Direct, p. 3; Ferkin MT Direct, p. 4; Jones OR Direct, p. 5; Jones WA Direct, p. 3.

Alleged Benefit	Century Link's Claim About Alleged Benefit	Discovery Response
Network Investment	company's ability to build out and improve its network…"[23]	recommendations related to changes in investment in order to better serve [Iowa, Washington] consumers."[25] "At this time, CenturyLink has not yet established any specific plans regarding Arizona capital expenditures. Once the merger is finalized, and the new operating model has been implemented, individuals from the legacy Qwest and CenturyLink companies will assess the network infrastructure in Arizona and make any recommendations related to changes in capital expenditures in order to better serve Arizona consumers."[26] "CenturyTel has not projected its wireline capital investment for Oregon for the years requested [2011, 2012, 2013, 2014, 2015]."[27] In response to "2010 pro forma" CenturyLink Oregon wireline capital investments, CenturyLink responds: "Not Available".[28] "CenturyLink's review of the condition of Qwest's outside plant did not include any areas in Montana."[29] "CenturyLink did not complete any inspections of Qwest outside plant in Utah during the due diligence process."[30] "CenturyLink did not prepare any reports concerning the condition or maintenance of Qwest outside plan [sic] in Washington."[31]

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24 CL response to PAETEC IA DR No. 103; CL response to Integra CO DR No. 103, CL response to Integra MN DR No. 103; CL response to Integra WA DR No. 103. See also, CL response to Integra AZ DR No. 103(b); CL response to Integra UT DR No. 103(b).

23 Joint Applicants' FCC Reply Comments, p. 7.

25 CL response to IAOCA DR No. 005C; CL Response to WAUTC Staff DR No. 51.

26 CL response to ACC Staff DR No. 2.10.

27 CL response to ORPUC Staff DR No. 27.

28 CL response to ORPUC Staff DR No. 25.

29 CL response to MCC DR No. 72.

30 CL response to Integra UT DR No. 128.

31 CL response to Integra WA DR No. 128.

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
"Go-To-Market" Local Operating Model	"A key benefit [to customers] will come from leveraging each company's operational and network strengths, resulting in a company with an impressive national presence and local depth. CenturyLink has proven the effectiveness of its region-based local market focus…"[32] "CenturyLink's region-based, local operating model will reinforce this shared philosophy and will likely be the most [direct and] noticeable positive change for Qwest customers…this approach will likely be implemented to ensure that the customer is at the center of everything the company does."[33] "The Company believes the improvement [in access line losses and high-speed customer growth] is tangible evidence of the impact of the customer benefits of the Company's local operating model that moves accountability and decision-making closer to the customer."[34] "The transaction will help bring this same locally-focused approach to rural customers in Qwest's legacy region."[35]	"Detailed planning regarding the integration of Qwest areas into CenturyLink's local operating model has not begun."[36] "CenturyLink's local operating model provides the framework for investment decisions across its operating territory…Upon completion of the merger, it is anticipated that CenturyLink will implement its local operating model in the Qwest operating territories."[37] "While CenturyLink does anticipate its local operating model will be incorporated into the areas of Qwest's operational structure upon the completion of the Transaction, the detailed analysis and planning associated with identifying specific region headquarters has not taken place."[38] "Identification of 'best practices' associated with the integration of CenturyLink and Qwest operations will be completed as part of the detailed integration planning efforts. Until the integration teams are formed, and the detailed data gathering process can be completed, an analysis regarding the identification and/or adoption of 'best practices' is not available."[39]

[32] McMillan AZ Direct, p. 10; Jones CO Direct, p. 10; Jones IA Direct, p. 9; Jones MN Direct, p. 7; Ferkin MT Direct, p. 8; Ferkin UT Direct, p. 8; Jones WA Direct, p. 9.

[33] McMillan AZ Direct, p. 15; Jones CO Direct, p. 15; Jones IA Direct, p. 14; Jones MN Direct, p. 11; Ferkin MT Direct, p. 12; Jones OR Direct, p. 18; Ferkin UT Direct, p. 12; Jones WA Direct, p. 14.

[34] Bailey CO Direct, p. 15; Bailey MT Direct, pp. 14-15; Bailey OR Direct, pp. 17-18; Bailey WA Direct, p. 15.

[35] Joint Applicants' FCC Reply Comments, p. 8.

[36] CL response to IAOCA DR No. 1-008C.

[37] CL response to WAUTC Staff DR No. 92.

[38] CL response to WAUTC Staff DR No. 80.

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Free Cash Flow for Debt Repayment and Network Investment	"The combined company…is expected to produce sufficient operating cash flows to fund a stronger and more competitive business…"[40] "The combined company will be committed to network investment and appropriate balance sheet improvement (debt reduction)…"[41]	"Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans regarding network investment and appropriate balance sheet improvement (debt reduction) has[ve] not been developed. The analysis and decisions regarding how CenturyLink plans to best utilize its free cash flow will be completed as part of the detailed integration planning efforts."[42] "Post-merger pro-forma financial statements for the years 2011 through 2015 have not been developed."[43] In response to a request for the Company's financial model showing that it can fulfill its broadband deployment build-out while servicing debt, CenturyLink responded: "The requested model does not exist for Montana."[44] "CenturyLink currently does not have any specific plans for investments in Qwest's service areas post-merger."[45] "CenturyTel has not projected its wireline capital investment for Oregon for the years requested [2011, 2012, 2013, 2014, 2015]."[46]

39 CL response to WAUTC Staff DR No. 93; CL response to PAETEC IA DR No. 52; CL response to Integra AZ DR No. 52(g); CL response to Integra UT DR No. 52(g); CL response to Integra CO DR No. 52(g); CL response to Integra MN DR No. 52(g); CL response to Integra WA DR No. 52(g).

40 Direct Testimony of Jeff Glover, Arizona Corporation Commission Docket T-01051B-10-0194, May 24, 2010 ("Glover AZ Direct"), p. 6; Bailey CO Direct, p. 5; Direct Testimony of Jeff Glover, Iowa Board Docket No. SPU-2010-0006, May 24, 2010 ("Glover IA Direct"), p. 5; Direct Testimony of Mark Gast, Minnesota PUC Docket No. PA-10-456, June 14, 2010 ("Gast MN Direct"), p. 6; Direct Testimony of G. Clay Bailey, Montana PSC Docket D2010.5.55, May 28, 2010 ("Bailey MT Direct"), p. 5; Direct Testimony of G. Clay Bailey, Oregon PUC Docket UM 1484, May 21, 2010 ("Bailey OR Direct"), 6; Direct Testimony of Jeff Glover, Utah PSC Docket No. 10-049-16, May 27, 2010 ("Glover UT Direct"), p. 5; Direct Testimony of G. Clay Bailey, Washington UTC Docket No. UT-100820, May 21, 2010 ("Bailey WA Direct"), p. 5.

41 Glover AZ Direct, p. 6; Bailey CO Direct, p. 5; Glover IA Direct, p. 6; Gast MN Direct, p. 6; Bailey MT Direct, p. 4; Bailey OR Direct, p. 6; Glover UT Direct, p. 5; Bailey WA Direct, p. 5. (The word "appropriate" appears in CenturyLink testimony in some states but not others).

42 CL response to Integra MN DR No. 133; CL response to PAETEC IA DR No. 133; CL response to Integra AZ DR No. 133; CL response to Integra UT DR No. 133; CL response to Integra CO DR No. 133; CL response to Integra WA DR No. 133.

43 CL response to ORPUC Staff DR No. 6.

44 CL response to MCC DR No. 38e.

45 CL response to Integra AZ DR No. 103(b); CL response to Integra UT DR No. 103(b); CL response to Integra CO DR No. 103(b).

46 CL response to ORPUC Staff DR No. 27.

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Synergies	"The merged company is projected in three-to-five years to have an estimated $625 million in annual run-rate operating and capital synergies…"[47] "Improved operating and capital efficiency through reductions in corporate overhead and the elimination of duplicative functions and systems."[48] "And more generally, the savings the merged company will enjoy will make it a more efficient, stable, and nimble competitor in all realms, to the benefit of all its customers."[49]	"Synergies were estimated at the total enterprise level only and not by entity or by state." [50] "The synergy analysis for the transaction was prepared on a company-wide basis only. A Washington specific analysis does not exist."[51] "CenturyLink has not estimated synergy savings or one-time merger costs by state."[52] "CenturyLink's assessment of synergies as a result of the proposed merger was prepared on a company-wide basis. No such assessment exists on a state-by-state basis, including Arizona."[53] "The estimated integration operating cost range of $650-$800 million was not calculated at a detailed level."[54] "Also, estimated integration cost ranges were not calculated at a detailed level."[55] "Specific integration initiatives and associated expenditures will not be fully developed until the transaction is complete, and the necessary decisions have been made on how to best integrate the two companies."[56]

47 Glover AZ Direct, p. 6; Bailey CO Direct, p. 5; Glover IA Direct, p. 5; Gast MN Direct, p. 6; Bailey MT Direct, p. 4; Bailey OR Direct, pp. 6 and 14; Glover UT Direct, p. 5; Bailey WA Direct, pp. 4-5.

48 Glover AZ Direct, p. 12; Bailey CO Direct, p. 11; Glover IA Direct, p. 11; Gast MN Direct, p. 9; MT Direct, p. 11; Bailey OR Direct, p. 13; Glover UT Direct, p. 10; Bailey WA Direct, p. 11.

49 Joint Applicants' FCC Reply Comments, p. 5.

50 CL response to IAOCA DR No. 1-013F; CL response to MNDOC DR No. 3.

51 CL response to WAUTC Staff DR No. 24.

52 CL response to Integra MN DR No. 53; CL response to PAETEC IA DR No. 53; CL response to Integra AZ DR No. 53; CL response to Integra UT DR No. 53; CL response to Integra CO DR No. 53; CL response to Integra WA DR No. 53.

53 CL response to AZ Staff DR No. 2.12.

54 CL response to MN Department of Commerce ("DOC") DR No. 12.

55 CL response to Integra MN DR No. 52.

56 CL response to Integra MN DR No. 47; CL response to PAETEC IA DR No. 47; CL response to Integra AZ DR No. 47; CL response to Integra UT DR No. 47; CL response to Integra CO DR No. 47; CL response to Integra WA DR No. 47.

Alleged Benefit	Century Link's Claim About Alleged Benefit	Discovery Response
Synergies		"Post-merger pro-forma financial statements for the years 2011 through 2015 have not been developed."[57] "Integration planning is in the early stages and decisions on personnel, location of personnel, etc. have not been made at this time…"[58] "A more detailed management organization table for the post-merger business is not available at this time."[59] "CenturyLink states that identification of key employees…and developing strategies to retain critical resources of all kinds, is part of the integration process."[60] "identification of key employees…and developing strategies to retain critical resources of all kinds, is part of the integration process."[61] "Decisions regarding the locations of the remaining regional headquarters have not been made."[62] "Until the transaction is complete and necessary decisions have been made on how to best integrate the two companies, we cannot project the timing or nature of changes, if any, to operations and employees in [Arizona, Iowa, Utah, Colorado, Minnesota, Washington]."[63] "Identification of 'best practices' associated with the integration of CenturyLink and Qwest operations will be completed as part of the detailed integration planning efforts. Until the integration teams are formed, and the detailed data gathering process can be

57 CL response to ORPUC Staff DR No. 6.

58 CL response to ORPUC Staff DR No. 54.

59 CL response to IAOCA DR No. 001.

60 CL response to Integra MN DR No. 74; CL response to Integra WA DR No. 74.

61 CL response to Integra MN DR No. 74; CL response to Integra WA DR No. 74.

62 CL response to Integra MN DR No. 147; CL response to PAETEC IA DR No. 145; CL response to Integra UT DR No. 147; CL response to Integra CO DR No. 147; CL response to Integra WA DR No. 147.

63 CL response to AZ Staff DR No. 2.38; CL response to PAETEC IA DR No. 136; CL response to Integra AZ DR No. 136; CL response to Integra UT DR No. 136; CL response to Integra CO DR No. 136; CL response to Integra MN DR No. 136; CL response to Integra WA DR No. 136.

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Synergies		completed, an analysis regarding the identification and/or adoption of 'best practices' is not available."[64] When asked whether merger related cost savings would be flowed through to cost-based wholesale rates, CenturyLink replied: "CenturyLink has not evaluated or reached any conclusions concerning this issue at this time."[65]
Competitive Choice	"the Transaction will also have a positive impact on providing competitive choice and responding to customer demands."[66] "the Transaction will also have a positive impact on the state of competition."[67] "the increased scale and scope of the combined company will greatly enhance its ability to compete across the full range of services that consumers demand today."[68]	"Plans for the introduction of specific new services in [Iowa, Arizona] have not been fully developed at this point. Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies specific product and service plans cannot be evaluated and finalized."[69] "Immediately after the Transaction, customers will continue to receive the same full range of high quality products and services at the same rates, terms and under the same conditions as they did immediately before the close of the Transaction…Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies, specific product and pricing plans cannot be evaluated and finalized."[70] "CenturyLink has not evaluated or reached any conclusions regarding this issue [subsequent service, term, or price change] at this time."[71] Regarding CenturyLink's claim that the merger will have positive impacts on the state of competition, CenturyLink has provided information in discovery responses showing hundreds of CenturyLink exchanges that are adjacent to Qwest exchanges.[72]

64 CL response to WAUTC Staff DR No. 93; CL response to PAETEC IA DR No. 52; CL response to Integra AZ DR No. 52(g); CL response to Integra UT DR No. 52(g); CL response to Integra CO DR No. 52(g); CL response to Integra MN DR No. 52(g); CL response to Integra WA DR No. 52(g).

65 CL response to Integra Colorado DR No. 55(b).

66 Jones CO Direct, p. 15; Jones IA Direct, p. 14; Jones MN Direct, p. 12; Jones OR Direct, p. 18; Jones WA Direct, p. 14.

67 McMillan AZ Direct, p. 15; Ferkin MT Direct, p. 12; Ferkin UT Direct, p. 12.

68 Joint Applicants' FCC Reply Comments, p. 2.

69 CL response to IAOCA DR no. 1-004; CL response to AZ Staff DR No. 2.30.

70 CL response to WAUTC Staff DR No. 60.

71 CL response to PAETEC IA DR No. 95; CL response to Integra AZ DR No. 95; CL response to Integra UT DR No. 95; CL response to Integra CO DR No. 95; CL response to Integra MN DR No. 95; CL response to Integra WA DR No. 95.

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Broader Array of Services to Enterprise Customers	"The transaction will enable post-merger CenturyLink to [leverage / build on] Qwest's strength in providing complex communications services to large businesses and government entities on a national and global scale to provide a broader array of services to enterprise customers in CenturyLink territories."[73] "It will also allow for more diverse routing options, provide redundant routing for [network reliability / backup] purposes, and offer communications and information services that are attractive to businesses in the financial sector, government entities, and other customers who require solutions for highly sensitive data operations."[74] "The company also will be able to leverage Qwest's more extensive enterprise service expertise to offer new and enhanced business services in CenturyLink's markets."[75]	"Plans for the introduction of specific new services in [Iowa, Arizona] have not been fully developed at this point. Until the Transaction is complete and the necessary decisions have been made on how to best integrate the two companies specific product and service plans cannot be evaluated and finalized."[76] "Legacy CenturyTel companies in [Colorado, Iowa] are rural carriers."[77] "[Minnesota, Washington] is a rural state for the legacy CenturyTel companies…"[78]

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72 See, e.g., CenturyLink response to Integra Colorado DR #15, Attachment, showing about 93% of CenturyLink's exchanges in Colorado as being either directly adjacent to a Qwest exchange or adjacent to another CenturyLink exchange that is adjacent to a Qwest exchange. See also, CenturyLink response to Washington UTC Staff DR #65 ("CenturyLink provides certain Ethernet services to a small number of customers (less than 20) in the Olympia, Tumwater and Spokane markets in Qwest territory." See also, Highly Confidential Attachment 10 to CenturyLink's responses to Integra Minnesota DR #10.

73 McMillan AZ Direct, p. 11; Jones CO Direct, p. 11; Jones IA Direct, p. 10; Jones MN Direct, p. 8; Ferkin MT Direct, p. 9; Jones OR Direct, p. 13; Jones WA Direct, p. 10.

74 McMillan AZ Direct, p. 12; Jones CO Direct, p. 11; Jones IA Direct, p. 10; Jones MN Direct, p. 9; Ferkin MT Direct, p. 9; Jones OR Direct, p. 14; Ferkin UT Direct, p. 9; Jones WA Direct, pp. 10-11.

75 Joint Applicants' FCC Reply Comments, p. 4.

76 CL response to IAOCA DR no. 1-004; CL response to AZ Staff DR No. 2.30.

77 CL response to Integra Colorado DR #114; CL response to Integra Iowa DR #114..

78 CL response to Integra Minnesota DR #114; CL response to Integra Washington DR #114.

Alleged Benefit	CenturyLink's Claim About Alleged Benefit	Discovery Response
Added Stability	"the merged company [should / is expected to] have improved access to capital on reasonable terms."[79] "…will bring added stability and reliability to the telecommunications industry in [Oregon, Colorado, Minnesota, Iowa, Washington] and also position the company to better meet current and future customer demands."[80] "…the merged company is expected to have one of the strongest balance sheets in the U.S. telecommunications industry."[81] "The company will be better situated, both financially and operationally, with more flexibility to meet the challenges of a rapidly changing and intensely competitive communications environment."[82] "The proposed transaction will diversify and therefore reduce the financial risk of the merged company. The effect…is to lower the potential impact of operating and financial risk for the consolidated merged company by reducing its exposure to any single risk."[83]	"Post-merger pro-forma financial statements for the years 2011 through 2015 have not been developed."[84] CenturyLink has calculated its pre-merger cost of capital at 9.23% and Qwest has calculated its pre-merger cost of capital at 10.4% (pre-tax WACC). CenturyLink calculates its pro-forma (post-merger) cost of capital at 10.67%.[85] "Post-merger pro-forma financial statements for the years 2011 through 2015 have not been developed."[86] The Joint Applicants repeatedly refer to the Form S4 in response to financial questions. The Form S4 discusses numerous financial risks, including: (1) "Much of CenturyLink's and Qwest's revenues are, and following the merger will remain, dependent upon laws and regulations which, if changed, could result in material revenue reductions" (p. 21); (2) "As a result of assuming Qwest's indebtedness in connection with the merger, CenturyLink will become more leveraged. This could have material adverse consequences for CenturyLink, including (i) reducing CenturyLink's credit ratings and thereby raising its borrowing costs, (ii) hindering CenturyLink's ability to adjust to changing market, industry or economic conditions, (iii) limiting CenturyLink's ability to access the capital markets to refinance maturing debt or to fund acquisitions or emerging businesses, (iv) limiting the amount of free cash flow available for future operations, acquisitions, dividends, stock repurchases or other uses, (v) making CenturyLink more vulnerable to economic or industry downturns, including interest rate increases, and (vi) placing CenturyLink at a competitive disadvantage compared to less leveraged competitors." (p. 23)

79 Glover AZ Direct, p. 8; Bailey CO Direct, p. 6; Gast MN Direct, p. 14; Bailey MT Direct, p. 6; Bailey OR Direct, p. 8; Glover UT Direct, p. 6; Bailey WA Direct, p. 6.

80 Jones CO Direct, p. 8; Jones IA Direct, p. 8; Jones MN Direct, p. 6; Jones OR Direct, p. 10; Jones WA Direct, pp. 7-8.

81 Glover AZ Direct, p. 6; Bailey CO Direct, p. 5; Glover IA Direct, p. 5; Gast MN Direct, p. 6; Bailey MT Direct, p. 4; Bailey OR Direct, p. 6; Glover UT Direct, pp. 4-5; Bailey WA Direct, p. 4.

82 McMillan AZ Direct, p. 10; Jones CO Direct, p. 10; Jones IA Direct, p. 9; Jones MN Direct, p. 8; Ferkin MT Direct, p. 8; Jones OR Direct, p. 13; Ferkin UT Direct, p. 8; Jones WA Direct, pp. 9-10.

83 Bailey CO Direct, p. 15; Gast MN Direct, p. 10; Bailey MT Direct, p. 15; Bailey OR Direct, p. 18; Bailey WA Direct, p. 15.

84 CL response to ORPUC Staff DR No. 6.

85 CL response to ORPUC Staff DR No. 3 and Qwest response to ORPUC Staff DR No. 3 Attachment A.

86 CL response to ORPUC Staff No. DR 6.

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd	Chair
J. Dennis O'Brien	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink	Docket No. P-421, et al./PA-10-456

EXHIBIT AHA-5

TO THE

DIRECT TESTIMONY OF DR. AUGUST H. ANKUM

ON BEHALF OF

CBEYOND COMMUNICATIONS, LLC, CHARTER FIBERLINK CCO, LLC, INTEGRA TELECOM, INC., LEVEL 3 COMMUNICATIONS, LLC, MCLEODUSA TELECOMMUNICATIONS SERVICES, INC., d/b/a PAETEC BUSINESS SERVICES, TDS METROCOM, LLC, TW TELECOM OF MINNESOTA, LLC, ORBITCOM, INC. AND POPP.COM

August 19, 2010

April 30, 2010

Kim Isaacs
OneEighty Communications Inc
6160 Golden Hills Drive
Golden Valley, MN 55416
kdisaacs@integratelecom.com

TO:Kim Isaacs

Announcement Date:	**April 30, 2010**
Effective Date:	**June 1, 2010**
Document Number:	**PROD.RESL.04.30.10.F.07809.DS1_DS3_Services**
Notification Category:	**Product Notification**
Target Audience:	**CLECs, Resellers and ISP-GET**
Subject:	**DS1/DS3 Services**

This is to advise you of changes to a Qwest retail service offering. Please be advised that retail offers that are subject to Commission approval may change. Resellers should monitor filings since Qwest will not provide notification of changes.

Tariff/catalog/price list reference: Qwest Tariff F.C.C. No. 1.

State(s): All 14 Qwest States covered by Tariff F.C.C. No. 1.

Product Description: Qwest Corporation (Qwest) plans to change its Regional Commitment Program (RCP) from a unit based plan to a revenue based plan and raise the commitment level from 90% to 95% of the total Company-provided in-service DS1 and DS3 Revenue. The effective date of this restructure will be June 1, 2010.

If you have any questions or would like to discuss this notice please contact your Qwest Service Manager, Maryann Wiborg on (612) 359-5107 or at MaryAnn.Wiborg@qwest.com or Rita Urevig on (218) 723-5801 or at Rita.Urevig@qwest.com. Qwest appreciates your business and we look forward to our continued relationship.

Sincerely,

Qwest Corporation

If you would like to subscribe, unsubscribe or change your current profile to Qwest Wholesale mailouts please go to the 'Subscribe/Unsubscribe' web site and follow the subscription instructions. The site is located at:

http://www.qwest.com/wholesale/notices/cnla/maillist.html

cc: Maryann Wiborg or Rita Urevig
Stephanie Smith

Qwest Communications, 120 Lenora St, 11th Floor, Seattle WA 98121

From: Johnson, Bonnie J.
Sent: Friday, June 04, 2010 10:44 AM
To: 'Schipper, Scott'
Cc: Johnson, Bonnie J.
Subject: Meeting follow-up/RCP

Hi Scott,
Thanks again for meeting with me. I am still working on pulling together contacts for AQCB requests (including QMOE), but I did follow up with Doug Denney regarding the RCP agreements.

Integra recently had discussions about the fact that some of these plans are about to expire. Integra is disappointed in the changes Qwest recently announced with respect to the RCP. They made two changes that greatly diminish the value of the RCP. Changing from a circuit based commitment to a revenue based commitment, limits our ability to groom our network to the greatest ability. In addition, Qwest is changing the commitment level from 90 to 95%. Both of these substantially decrease the value of the RCP by increasing the risk associated with the plan.

You indicated that you have little leverage regarding RCP, however, I wanted you to know the impact of the changes Qwest made.

Thanks again,

Bonnie

integra TELECOM
Bonnie J. Johnson | Director Carrier Relations
| direct 763.745.8464 | fax 763.745.8459 |
6160 Golden Hills Drive
Golden Valley, MN 55416-1020
bjjohnson@integratelecom.com

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd	Chair
J. Dennis O'Brien	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Joint Petition for Approval of Indirect Transfer of Control of Qwest Operating Companies to CenturyLink	Docket No. P-421, et al./PA-10-456

EXHIBIT AHA-6

TO THE

DIRECT TESTIMONY OF DR. AUGUST H. ANKUM

ON BEHALF OF

CBEYOND COMMUNICATIONS, LLC, CHARTER FIBERLINK CCO, LLC, INTEGRA TELECOM, INC., LEVEL 3 COMMUNICATIONS, LLC, MCLEODUSA TELECOMMUNICATIONS SERVICES, INC., d/b/a PAETEC BUSINESS SERVICES, TDS METROCOM, LLC, TW TELECOM OF MINNESOTA, LLC, ORBITCOM, INC. AND POPP.COM

August 19, 2010

Morgan Stanley

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FILED WITH
Executive Secretary
May 25, 2010
IOWA UTILITIES BOARD
SPU-2010-0006

April 29, 2010

Stock Rating
++

Industry View
Attractive

CenturyTel

1Q10 Preview: Awaiting Embarq Synergy/Integration Update and Additional Color on Qwest Deal

Investment conclusion: CenturyLink (formerly CenturyTel) has a track record of beating and raising annual guidance when it releases quarterly results; only in two out of the last 16 quarters (2Q09 and 3Q09, before and after closing the Embarq deal) it did not do so (see side table). As such, we expect management to increase its 2010 EPS guidance ($3.10 to $3.20) when it reports 1Q results next Wednesday. Last's week announcement of CenturyLink's deal with Qwest implies that the integration of the Embarq properties is tracking ahead of schedule, and thus, management has more visibility into 2010 earnings.

On the Qwest transaction itself, we expect to get some additional granularity during the call around synergy targets and timeframes as well as details on the state approval process, including what states will need to grant formal approval to the deal and likely timelines. (For more on our views on the deal please see "*CenturyLink/Qwest Merger Creates a New Scale Player in Telecom"* published on April 23, 2010.)

What's new: 1Q results are due on Wednesday, May 5 (call: 11:30AM ET, dial-in: 866-219-5631). Our 1Q EPS estimate of $0.89 is three cents above FactSet consensus and one cent above the top end of the $0.84-$0.88 guidance.

Where we differ: We remain concerned about secular pressures facing the wireline sector, but believe that CenturyLink is well positioned, given its merger driven strategy. We are already seeing signs of a recovery in legacy Embarq's consumer segment and we believe that a recovering economy could help demand recover in the enterprise sector.

What's next: Qwest and Windstream will also release 1Q results on Wednesday. We'll get a full picture of the RLEC space once Frontier reports on Thursday.

Key Ratios and Statistics

Reuters: CTL.N Bloomberg: CTL US
Telecom Services / United States of America

Price target	++
Shr price, close (Apr 29, 2010)	$34.10
Mkt cap, curr (mm)	$10,198
52-Week Range	$37.15-26.72

Fiscal Year ending	12/08	12/09	12/10e	12/11e
ModelWare EPS ($)	**3.35**	**3.78**	**3.35**	**3.21**
Prior ModelWare EPS ($)	-	-	-	-
P/E	**8.2**	**9.6**	**10.2**	**10.6**
Consensus EPS ($)§	**3.37**	**3.60**	**3.25**	**3.20**
Div yld (%)	10.2	7.7	8.5	8.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
e = Morgan Stanley Research estimates
++ = Stock Rating, Price Target or Estimates are not available or have been removed due to applicable law and/or Morgan Stanley policy.

Guidance – A History of Beat and Raise, Partly Helped by Buyback Activity

ANNUAL GUIDANCE					DIFFERENCE vs 1Q GUIDANCE	
DATE	YEAR	RANGE LOW	RANGE HIGH	ACTUAL	LOW-END	HIGH-END
2-Feb-06	2006	2.20	2.35			
27-Apr-06		2.30	2.40			
27-Jul-06		2.35	2.45			
2-Nov-06		2.45	2.50	2.53	0.33	0.18
15-Feb-07	2007	2.60	2.70			
3-May-07		2.75	2.85			
2-Aug-07		2.90	3.00			
1-Nov-07		3.00	3.05	3.17	0.57	0.47
14-Feb-08	2008	2.90	3.00			
1-May-08		3.05	3.20			
31-Jul-08		3.20	3.30			
27-Oct-08		3.28	3.33	3.37	0.47	0.37
19-Feb-09	2009	3.20	3.30			
30-Apr-09		NA	NA			
6-Aug-09		3.20	3.30			
5-Nov-09		3.45	3.50	3.50	0.30	0.20
25-Feb-10	2010	3.10	3.20			

Source: Company data, Morgan Stanley Research

1Q Preview: Awaiting Embarq Synergy/Integration Update and Additional Color on Qwest Deal

Investment Debates

1. Are the Embarq and Qwest synergy targets realistic?

***Market view:* Yes.** Investors are comfortable with the synergy realization at Embarq, while the Qwest synergy target looks conservative.

***Our view:* They seem conservative.** Management's commentary points to an earlier than expected realization of Embarq synergies. We would not rule out if the target/timing ($375M within the first 3 years) is updated in the next months. The Qwest cost synergies also look conservative when compared to other deals (7.3% of Qwest's 2009 cash opex compared to 10.3% in the Embarq deal and +20% in other recent telecom deals).

Where we could be wrong: (1) The Embarq and Qwest deals are much larger and involve more urban properties than prior deals. (2) Deterioration of macro trends forces synergy realignment. (3) Qwest management has already taken a large portion of costs out of the business.

2. Can Revenue Generating Unit (RGU) erosion be stemmed?

***Market view:* Not really.** Footprint is now more urban/suburban with Embarq and will be more so with Qwest.

***Our view:* Difficult; but data points are increasingly encouraging.** Generally agree with consensus. RGU erosion could ultimately impact revenues, profitability and FCF. Yet, we have seen encouraging line loss trends at AT&T and Verizon, suggesting a trough in urban markets is a possibility. CenturyLink has had very good results in Embarq's footprint with only 6 months after closing the deal. In 4Q, the annual RGU rate of decline was 5.0%, a marked improvement from the 5.5% seen in 3Q and the lowest since 4Q08.

Where we could be wrong: Unemployment is not under control yet; in March, the unemployment rate in Nevada and Florida stood at 13.4% and 12.3%, up from 13.2% and 12.2% respectively in February

3. Is the dividend sustainable?

***Market view:* Mixed.** Secular pressures are ultimately a risk to FCF generation. Video/wireless strategies are uncertain and also a risk.

***Our view:* It is sustainable.** The Embarq deal is expected to be FCF accretive in the first full year after closing. The Qwest deal is expected to be FCF accretive immediately after closing. Moreover, management decided to leave the dividend unchanged, but more importantly, the payout ratio is expected to be relatively unchanged too. The proforma 2009 FCF, including synergies, was $3.4B, implying a 45.1% dividend payout. With respect to the video and wireless strategy, management has a track record of being prudent in launching new products, and it may very well choose, in the case of wireless, to expand the existing 'agency' relationship that exists between Qwest and Verizon Wireless.

Where we could be wrong: Management pursues a facilities based wireless strategy and either purchases more spectrum that the FCC is looking to redeploy, or to acquires a national wireless operator.

Morgan Stanley is acting as financial advisor to Qwest Communications International Inc. ("Qwest") in connection with its merger with CenturyTel Inc. ("CenturyTel"), as announced on April 22, 2010. The proposed merger is subject to the approval of CenturyTel and Qwest shareholders, as well as regulatory approvals and other customary closing conditions.

This report and the information provided herein is not intended to (i) provide voting advice, (ii) serve as an endorsement of the proposed transaction, or (iii) result in the procurement, withholding or revocation of a proxy or any other action by a security holder.

Qwest has agreed to pay fees to Morgan Stanley for its financial services, including transaction fees that are subject to the consummation of the proposed transaction.

Please refer to the notes at the end of the report.

Exhibit 1

Morgan Stanley 1Q10 Estimates

CenturyLink	1Q09	4Q09	1Q10E
EPS	**$0.95**	**$0.96**	**$0.89**
Revenue ($M)	**1,910**	**1,839**	**1,810**
% growth	na	-6.9%	-5.2%
EBITDA ($M)	**960**	**944**	**912**
% margin	50.3%	51.3%	50.4%
Capex ($M)	**96**	**337**	**217**
% of Rev	5.0%	18.3%	12.0%
Access lines (000)	**7,543**	**7,039**	**6,901**
% growth	na	-8.8%	-8.5%
Incremental losses (000)	(172)	(146)	(138)
% growth	16.7%	-24.2%	-19.8%
DSL subs (000)	**2,117**	**2,236**	**2,284**
Net adds (000)	64	47	48
% growth	-31.9%	27.0%	-25.0%
FCF (OCF - capex)	**809**	**334**	**420**
Dividend Payout %	21%	63%	52%
FCF (calc by company)	**558**	**306**	**402**
Dividend Payout %	31%	68%	54%

Source: Company data, Morgan Stanley Research

Questions for Management

<u>Qwest deal:</u> Can you provide us with a more granular detail on synergy targets and expected realization timelines? What states require an approval and what are the likely timelines? When do you expect to file the proxy?

<u>Embarq integration/synergies:</u> Management expected to realize additional incremental operating cost synergies of approx. $10M in 1Q10 and approx. $200M for the full year. Any updates on this?

Once the North Carolina conversion is completed, which states will follow? Is management still expecting to have 80% of the integration done by the end of 2010? When is it expected to be completed?

Economy: How did the economic environment play out in 1Q10? Management mentioned that it had seen some stabilization in Las Vegas and Florida markets. Is this still the case?

Guidance: Any updates/changes to the 2010 outlook (refer to Exhibit 2)? When providing 2010 guidance, management said it expected $0.08 to $0.10 in pressure related to reduced interstate USF revenue and $0.06 to $0.08 in pressure from the "expected migration of network traffic from a wireless carrier customer". Any updates?

Broadband stimulus/Regulatory: What are the company's thoughts on the FCC's National Broadband Plan released in March?

Spectrum: The Company mentioned that it plans to do a trial with LTE, "sometime toward the end of the year". Any updates on this?

Cable/wireless competition: What percentage of access lines were lost to cable versus wireless substitution? Did cable competition increase/decrease in the quarter?

Leverage: What is the company's target leverage?

Uses of cash: Management believed that the company should pay off approx. $500M of debt maturities this year and address the best use of FCF next year, when there are no significant debt maturities. Is this still the case?

Broadband/Access Lines: The Company added 47,000 high-speed customers in 4Q09. Any updates for 1Q10? How did net adds trend in the Embarq markets? Any updates on the rate of line loss in the most urban markets?

Pension: CenturyLink expected to make a voluntary pre-tax contribution of $300M to one of its pension plans in 1Q10. Any updates?

Video/IPTV: How did video adds trend in 1Q10? Management mentioned that CenturyLink plans to launch IPTV in five additional markets in 2010. Does the Qwest deal change these plans?

Wireless strategy: Any updates to management's wireless strategy, and in particular to the intended use of the 700MHz spectrum?

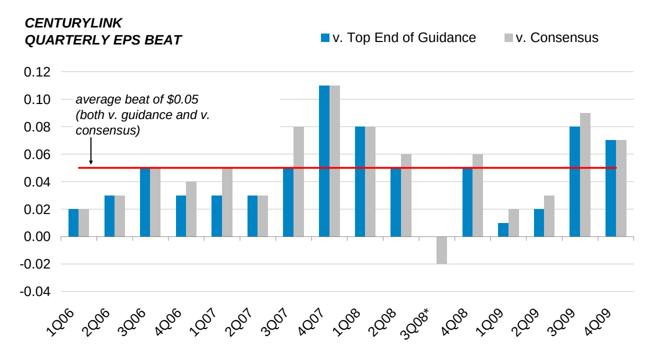
Regulatory/Other: What are management's expectations on dividend taxation, bonus depreciation, and the national broadband plan implementation?

Exhibit 2
Guidance vs. Morgan Stanley Estimates

2010	Guidance	MS
Operating revenues	5.5% to 6.5% lower than 2009 pro forma	-5.7%
EPS	$3.10 to 3.20	$3.35
FCF	$1.475B to $1.525B	$1.556B
Capex	$825M to $875M	$852M
Implied Y/Y change	-12.8% to -17.7%	-15.0%
Div Payout	57% to 59%	56%
Line loss	7.5% to 8.5%	-7.9%
1Q10	**Guidance**	**MS**
Revenues	$1.77B to $1.80B	$1.81B
EPS	$0.84 to $0.88	$0.89

Source: Company data, Morgan Stanley Research

Exhibit 3
Average Quarterly EPS Beat of 5 Cents Since 1Q06



Source: Company data, Morgan Stanley Research
* In 3Q08 management noted that earnings from its interest in an unconsolidated wireless partnership were ~$4M lower for than it had anticipated, due to 2007 audit adjustments recorded by the partnership's general partner late in 3Q. Excluding the adjustments, diluted EPS in 3Q08 would have been $0.025 higher and would have likely beat consensus and the top end of the guidance range.

Morgan Stanley is currently acting as financial advisor to Verizon Wireless with respect to the proposed acquisition of certain of its wireless assets by AT&T, Inc. and Atlantic Tele-Network, as required by the conditions of the regulatory approvals granted for Verizon Wireless' purchase of Alltel Corporation earlier this year. The proposed acquisitions are subject to customary regulatory approvals, as well as other customary closing conditions. Verizon Wireless has agreed to pay fees to Morgan Stanley for its financial services. Please refer to the notes at the end of the report.

Exhibit 4

CenturyLink Pro-forma Income Statement

	Pro-Forma for EQ						Pro-Forma for EQ							
	2008 (1)	2009	2010E	2011E	2012E	2013E	1Q09	2Q09	3Q09	4Q09	1Q10E	2Q10E	3Q10E	4Q10E
Total revenues	**8,236**	**7,530**	**7,098**	**6,910**	**6,709**	**6,517**	**1,910**	**1,906**	**1,874**	**1,839**	**1,810**	**1,785**	**1,760**	**1,743**
% growth	-3.2%	na	-5.7%	-2.6%	-2.9%	-2.9%	na	na	na	-6.9%	-5.2%	-6.3%	-6.1%	-5.2%
% growth q/q							-3.4%	-0.2%	-1.7%	-1.9%	-1.6%	-1.4%	-1.4%	-1.0%
Operating Expenses														
Cost of services and products	2,669	2,552	2,417	2,363	2,308	2,255	636	629	683	604	608	611	602	596
% growth	0.5%	na	-5.3%	-2.2%	-2.3%	-2.3%	na	na	na	na	-4.4%	-3.0%	-11.8%	-1.3%
% of revenues	32.4%	33.9%	34.0%	**34.2%**	**34.4%**	**34.6%**	33.3%	33.0%	36.4%	32.8%	**33.6%**	**34.2%**	**34.2%**	**34.2%**
Selling, general and administrative	1,722	1,177	1,146	1,119	1,100	1,082	313	310	262	292	290	287	285	284
% growth	-13.8%	na	-2.6%	-2.3%	-1.7%	-1.7%	na	na	na	na	-7.6%	-7.3%	8.9%	-2.7%
% of revenues	20.9%	15.6%	16.1%	**16.2%**	**16.4%**	**16.6%**	16.4%	16.3%	14.0%	15.9%	**16.0%**	**16.1%**	**16.2%**	**16.3%**
Depreciation and amortization	1,647	1,463	1,408	1,401	1,394	1,387	372	372	362	356	355	353	351	349
% growth	-6.2%	-11.2%	-3.8%	-0.5%	-0.5%	-0.5%	na	na	na	na	-4.6%	-5.3%	-3.1%	-2.0%
Total expenses	**6,037**	**5,192**	**4,971**	**4,884**	**4,802**	**4,724**	**1,322**	**1,312**	**1,307**	**1,252**	**1,252**	**1,251**	**1,238**	**1,229**
% growth	-5.8%	-14.0%	-4.3%	-1.8%	-1.7%	-1.6%	na	na	na	-8.6%	-5.2%	-4.7%	-5.2%	-1.8%
% revenues	73.3%	69.0%	70.0%	70.7%	71.6%	72.5%	69.2%	68.8%	69.7%	68.1%	69.2%	70.1%	70.3%	70.5%
Total operating income	**2,198**	**2,338**	**2,128**	**2,027**	**1,907**	**1,794**	**589**	**594**	**568**	**587**	**558**	**535**	**522**	**513**
% growth	4.9%	6.3%	-9.0%	-4.7%	-5.9%	-6.0%	na	na	na	-3.3%	-5.3%	-10.1%	-8.1%	-12.6%
% margin	26.7%	31.0%	30.0%	29.3%	28.4%	27.5%	30.8%	31.2%	30.3%	31.9%	30.8%	29.9%	29.7%	29.5%
EBITDA	**3,845**	**3,801**	**3,535**	**3,428**	**3,301**	**3,180**	**960**	**967**	**930**	**944**	**912**	**887**	**873**	**863**
% growth	-0.2%	-1.2%	-7.0%	-3.0%	-3.7%	-3.7%	-3.0%	0.0%	3.3%	-4.6%	-5.0%	-8.2%	-6.1%	-8.6%
% margin	46.7%	50.5%	49.8%	49.6%	49.2%	48.8%	50.3%	50.7%	49.6%	51.3%	50.4%	49.7%	49.6%	49.5%
Other income (expense)														
Interest expense	(605)	(572)	(549)	(522)	(507)	(470)	(144)	(140)	(143)	(144)	(141)	(137)	(136)	(135)
Other income and expense	35	30	17	17	17	17	6	6	9	9	5	4	4	4
Income before taxes	**1,629**	**1,796**	**1,595**	**1,522**	**1,417**	**1,341**	**450**	**460**	**434**	**452**	**421**	**401**	**390**	**383**
Income tax expense	(607)	(670)	(594)	(566)	(527)	(499)	(168)	(173)	(164)	(165)	(157)	(149)	(145)	(142)
% PBT (implied tax rate)	37.3%	37.3%	37.2%	37.2%	37.2%	37.2%	37.3%	37.5%	37.9%	36.4%	37.2%	37.2%	37.2%	37.2%
% Statutory Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net income (total)	**1,022**	**1,126**	**1,002**	**956**	**890**	**842**	**282**	**288**	**269**	**287**	**265**	**252**	**245**	**240**
% growth	14.9%	na	-11.0%	-4.6%	-6.9%	-5.4%	na	na	na	1.3%	-6.2%	-12.4%	-9.0%	-16.3%
% margin	12.4%	15.0%	14.1%	13.8%	13.3%	12.9%	14.8%	15.1%	14.4%	15.6%	14.6%	14.1%	13.9%	13.8%
Noncontrolling interests		(1)	(1.8)	(2)	(2)	(2)	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
NI (loss) to common shareholders	1,022	1,125	1,000	954	888	840	282	287	269	287	264	251	245	240
% growth	14.4%	na	-11.1%	-4.6%	-6.9%	-5.4%	na	na	na	1.2%	-6.3%	-12.5%	-9.1%	-16.4%
% margin	12.4%	14.9%	14.1%	13.8%	13.2%	12.9%	14.8%	15.1%	14.4%	15.6%	14.6%	14.1%	13.9%	13.8%
EPS - Basic	**$3.37**	**$3.79**	**$3.35**	**$3.21**	**$3.00**	**$2.86**	**$0.95**	**$0.97**	**$0.90**	**$0.96**	**$0.89**	**$0.84**	**$0.82**	**$0.80**
% growth	19.8%	na	-11.5%	-4.2%	-6.5%	-4.9%	12.5%	14.6%	26.3%	-0.1%	-7.3%	-13.0%	-9.1%	-16.2%
EPS - Diluted	**3.35**	**3.78**	**3.35**	**3.21**	**3.00**	**2.86**	**0.95**	**0.97**	**0.90**	**0.96**	**0.89**	**0.84**	**0.82**	**0.80**
% growth	21.6%	na	-11.3%	-4.2%	-6.5%	-4.9%	na	na	na	-0.3%	-7.2%	-12.9%	-9.1%	-16.0%
Diluted shares outstanding	305	298	298	297	296	294	295.7	297.3	298.4	299.3	298.6	298.6	298.4	298.0
% growth y/y	-5.9%	-2.3%	0.2%	-0.4%	-0.5%	-0.5%	-7.0%	-3.6%	0.1%	1.5%	1.0%	0.4%	0.0%	-0.4%
% growth q/q							0.3%	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%

Source: Company data, Morgan Stanley Research. (1) 2008 proforma by us; 1Q09 and 2Q09 are proforma calculated by us. 2009 is proforma provided by the company
E= Morgan Stanley Research estimates

Exhibit 5

CenturyLink Pro-forma Balance Sheet

	Pro-Forma for EQ 2008	2009	2010E	2011E	2012E	2013E	Pf Company 1Q09	Pf MS 2Q09	3Q09	4Q09	1Q10E	2Q10E	3Q10E	4Q10E
Assets														
Cash and cash equivalents	350	162	384	1,048	1,081	673	156	41	531	162	117	155	259	384
Accounts receivable	750	686	650	632	614	596	638	740	671	686	675	665	656	650
Other current assets	345	276	262	255	247	240	258	290	256	276	272	268	264	262
Total current assets	**$1,445**	**$1,124**	**$1,295**	**$1,935**	**$1,942**	**$1,510**	**1,052**	**1,070**	**1,458**	**1,124**	**1,063**	**1,089**	**1,179**	**1,295**
Gross PP&E	30,125	15,557	16,409	17,335	18,274	19,199	30,103	30,323	15,609	15,557	15,774	15,988	16,199	16,409
Accumulated depreciation	(19,818)	(6,460)	(7,867)	(9,268)	(10,662)	(12,049)	(20,030)	(20,381)	(6,245)	(6,460)	(6,814)	(7,167)	(7,518)	(7,867)
Net PPE	10,307	9,097	8,541	8,066	7,612	7,151	10,073	9,942	9,363	9,097	8,960	8,821	8,681	8,541
Goodwill	7,880	10,252	10,252	10,252	10,252	10,252	9,615	9,615	10,034	10,252	10,252	10,252	10,252	10,252
Investments and other assets	2,044	2,090	2,090	2,090	2,090	2,090	2,219	2,219	2,102	2,090	2,090	2,090	2,090	2,090
Total assets	**21,676**	**22,563**	**22,178**	**22,344**	**21,896**	**21,003**	**22,959**	**22,846**	**22,957**	**22,563**	**22,365**	**22,252**	**22,202**	**22,178**
Liabilities														
STDebt and current maturities of LTD	22	500	25	25	25	25	22	22	769	500	250	100	50	25
Accounts payable	443	395	390	381	372	364	370	436	332	395	398	399	394	390
Accrued expenses and other liabilities	889	812	798	780	764	748	918	824	1048	812	814	814	804	798
Total current liabilities	**$1,354**	**$1,707**	**$1,213**	**$1,186**	**$1,161**	**$1,136**	**1,310**	**1,281**	**2,149**	**1,707**	**1,462**	**1,314**	**1,248**	**1,213**
Long-term debt	9,037	7,254	7,254	7,420	7,053	6,299	8,120	7,956	7,455	7254	7,254	7,254	7,254	7,254
Deferred credits and other liabilities	3,809	4,135	4,135	4,135	4,135	4,135	4,334	4,334	3,989	4135	4,135	4,135	4,135	4,135
Total liabilities	**14,201**	**13,096**	**12,602**	**12,742**	**12,349**	**11,570**	**13,764**	**13,571**	**13,593**	**13,096**	**12,850**	**12,702**	**12,637**	**12,602**
Shareholders' equity														
Common stock	295	299	299	299	299	299	297	297	297	299	299	299	299	299
Paid-in capital	4,839	6,014	6,014	6,014	6,014	6,014	5,867	5,867	5959	6014	6014	6014	6014	6014
Treasury Stock	0	0	(25)	(75)	(125)	(175)	0	0	0	0	0	0	-12.5	-25
Accumulated OCI (net of tax)	(897)	(85)	(85)	(85)	(85)	(85)	(117)	(117)	(112)	(85)	(85)	(85)	(85)	(85)
Retained earnings	3,238	3,233	3,368	3,443	3,439	3,373	3,143	3,223	3212	**3,233**	3,281	3,316	3,344	3,368
Non-controlling interest	0	6	6	6	6	6	5	5	7	6	6	6	6	6
Total shareholders' equity	**7,475**	**9,467**	**9,577**	**9,602**	**9,548**	**9,432**	**9,195**	**9,275**	**9,364**	**9,467**	**9,515**	**9,550**	**9,565**	**9,577**
Total liabilities and SE	**21,676**	**22,563**	**22,178**	**22,344**	**21,896**	**$21,003**	**22,959**	**22,846**	**22,957**	**22,563**	**22,365**	**22,252**	**22,202**	**22,178**

Source: Company data, Morgan Stanley Research. E= Morgan Stanley Research estimates

Exhibit 6

CenturyLink Pro-forma Cash Flow Statement

	Pro-Forma for EQ 2008	2009	2010E	2011E	2012E	2013E	Pro-Forma for EQ 1Q09	2Q09	3Q09	4Q09	1Q10E	2Q10E	3Q10E	4Q10E
Operating activities from continuing operations														
Net income	1,135	1,125	1,000	954	888	840	282	287	269	287	264	251	245	240
Adjustments to reconcile net income to net cash provided	0	0												
	0	0												
Income from discontinued operations, net of tax	0	26					26	0						
Depreciation and amortization	1,527	1,463	1,408	1,401	1,394	1,387	372	372	362	356	355	353	351	349
Income from unconsolidated cellular entities	(12)	(0)					(1)	0						
Minority interest	0	0												
Deferred income taxes	166	233					96	9	12	116				
Nonrecurring gains and losses	76	40					40	0						
Changes in current assets and current liabilities:	0	0												
Accounts receivable	(13)	(89)	36	17	18	18	64	(5)	25	(173)	11	9	9	6
Accounts payable	(169)	65	(5)	(9)	(9)	(9)	50	15			3	2	(6)	(4)
Other accrued taxes	(65)	31	(14)	(18)	(17)	(16)	19	12			2	0	(10)	(6)
Other current assets and other current liabilities, net	(15)	(6)	14	7	7	7	(15)	9			4	4	4	3
Increase (decrease) in other noncurrent assets	(147)	25					(17)	1	(11)	52				
Other, net	119	(21)					(11)	14	(57)	33				
Net cash (used in) - operating activities cont. ops	**2,601**	**2,891**	**2,439**	**2,352**	**2,282**	**2,227**	**905**	**714**	**601**	**671**	**639**	**619**	**593**	**588**
Investing activities from continuing operations	0	0												
Acquisitions, net of cash acquired	(149)	637	0				0	0	419	218	0	0	0	0
Payments for property, plant and equipment (Capex)	(962)	(1,003)	(852)	(926)	(939)	(925)	(96)	(283)	(286)	(337)	(217)	(214)	(211)	(209)
Proceeds from sale of assets	44	12					12	0						
Investment in unconsolidated cellular entities	0	0					0	0						
Other, net	14	7					7	0						
Net cash(used in) - investing activities cont. ops	**(1,053)**	**(347)**	**(852)**	**(926)**	**(939)**	**(925)**	**(76)**	**(283)**	**133**	**(120)**	**(217)**	**(214)**	**(211)**	**(209)**
Financing activities from continuing operations	0	0												
Proceeds from issuance (payments) of debt	144	(1,306)	(475)	167	(368)	(754)	(747)	(335)	246	(470)	(250)	(150)	(50)	(25)
Proceeds from issuance (repurchases) of common stock	(829)	153	(25)	(50)	(50)	(50)	(0)	4	93	57	0	0	(13)	(13)
Cash dividends	(624)	(758)	(865)	(879)	(892)	(906)	(170)	(170)	(209)	(209)	(216)	(216)	(216)	(216)
Other, net	8	(821)					(106)	**(45)**	**(373)**	**(298)**				
Net cash (used in) - financing activites cont. ops	**(1,301)**	**(2,733)**	**(1,365)**	**(762)**	**(1,310)**	**(1,709)**	**(1,023)**	**(546)**	**(243)**	**(921)**	**(467)**	**(366)**	**(279)**	**(254)**
Net increase (decrease) in cash and cash equivalents	**247**	**(189)**	**222**	**664**	**33**	**(408)**	**(194)**	**(115)**	**491**	**(369)**	**(45)**	**38**	**103**	**125**
Cash at the beginning of period	103	350	162	384	1,048	1,081	350	156	41	531	162	117	155	259
Cash at the end of period	**$350**	**$162**	**$384**	**$1,048**	**$1,081**	**$673**	**$156**	**$41**	**$531**	**$162**	**$117**	**$155**	**$259**	**$384**
One time items related to EQ acq/integrations									121					
Adj Div Payout as % of FCF (OCF - capex)	**38.1%**	**40.2%**	**54.5%**	**61.6%**	**66.4%**	**69.6%**	**21%**	**40%**	**28%**	**63%**	**51%**	**53%**	**57%**	**57%**
Dividend Payout (as defined by CTL)	**39.3%**	**47.8%**	**55.6%**	**61.5%**	**66.5%**	**69.6%**	**31%**	**45%**	**61%**	**68%**	**54%**	**56%**	**56%**	**57%**

Source: Company data, Morgan Stanley Research. E= Morgan Stanley Research estimates

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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Global Stock Ratings Distribution

(as of March 31, 2010)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1042**	**41%**	**325**	**43%**	**31%**
Equal-weight/Hold	**1095**	**43%**	**348**	**46%**	**32%**
Not-Rated/Hold	**15**	**1%**	**4**	**1%**	**27%**
Underweight/Sell	**373**	**15%**	**87**	**11%**	**23%**
Total	**2,525**		**764**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.
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Industry Coverage:Telecom Services

Company (Ticker)	Rating (as of)	Price* (04/29/2010)
Simon Flannery		
AT&T, Inc. (T.N)	O (03/08/2006)	$26.14
American Tower Corp. (AMT.N)	E (03/12/2009)	$41.05
BCE Inc. (BCE.TO)	O (11/21/2008)	C$30.88
CenturyTel (CTL.N)	++	$34.1
Cincinnati Bell Inc. (CBB.N)	E (11/03/2006)	$3.46
Clearwire Corporation (CLWR.O)	U (12/08/2008)	$7.7
Crown Castle Corp. (CCI.N)	O (11/11/2009)	$38.34
Equinix Inc. (EQIX.O)	E (05/13/2009)	$101.35
FairPoint Communications (FRCMQ.PK)	NA (10/29/2007)	$.08
Frontier Communications Corp (FTR.N)	E (05/07/2007)	$8.07
Iowa Telecom (IWA.N)	E (11/25/2009)	$16.95
Leap Wireless (LEAP.O)	E (08/07/2009)	$18.5
Level 3 Communications, Inc. (LVLT.O)	U (02/14/2008)	$1.53
MetroPCS Communications (PCS.N)	E (08/07/2009)	$7.79
Neutral Tandem, Inc. (TNDM.O)	E (01/22/2010)	$17.45
PAETEC Holding Corp. (PAET.O)	E (06/26/2008)	$5.28
Qwest Communications Int'l (Q.N)	++	$5.28
Rackspace Hosting, Inc. (RAX.N)	O (09/23/2009)	$18.39
Rogers Communications, Inc. (RCIb.TO)	O (04/27/2005)	C$35.84
SAVVIS Inc. (SVVS.O)	E (04/28/2010)	$18.98
SBA Communications (SBAC.O)	E (03/12/2009)	$35.5
Sprint Nextel Corporation (S.N)	U (10/19/2009)	$4.39
TELUS Corp. (T.TO)	E (12/19/2008)	C$37.94
Telephone & Data Systems (TDS.N)	U (02/19/2009)	$35.33
US Cellular Corporation (USM.N)	E (03/10/2009)	$42.78
Verizon Communications (VZ.N)	E (01/22/2009)	$29.22
Windstream Corp. (WIN.O)	O (04/17/2006)	$11.14
tw telecom inc (TWTC.O)	E (06/26/2008)	$17.88

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

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Executive Secretary
May 25, 2010
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SPU-2010-0006

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes CenturyTel's outlook to negative; reviews Qwest's ratings for upgrade

Global Credit Research - 22 Apr 2010

Approximately $23 billion of Debt Affected

New York, April 22, 2010 -- Moody's Investors Service has affirmed the Baa3 long-term and Prime-3 short-term debt ratings of CenturyTel, Inc. ("CenturyTel" or the "Company") and changed the rating outlook to negative following the announcement that CenturyTel plans to acquire Qwest in a stock-for-stock transaction. In connection with the announcement, Moody's also placed the ratings of Qwest Communications International Inc. ("QCII") and its subsidiaries under review for upgrade.

Under the terms of the agreement, Qwest shareholders will receive 0.1664 CenturyTel shares for each share of Qwest common stock they own. The transaction reflects an enterprise value of approximately $25 billion, including the planned assumption of about $14 billion of Qwest's debt. The companies anticipate closing this transaction in the first half of 2011. CenturyTel expects that after a few years it will be able to generate significant expense savings from the merger, initially estimated at about $575 million annually. Non-recurring integration costs will likely be in the $1.0 billion range, spread over several years. While broadband deployment is likely to remain a strategic priority of the new company, approximately $50 mm of capital spending synergies are also possible, bringing total annual synergies to $625mm. The merger will produce a company with operations in 37 states, 17 million access lines and 5 million broadband customers.

The affirmation of CenturyTel's ratings reflects Moody's expectations that the combined company's pro forma leverage will remain between 2.8 and 3.0 times Debt to EBITDA (Moody's adjusted, before synergies) over the next two to three years and that its dividend payout ratio will decline modestly, although the absolute level of dividends will increase. Moody's Senior Vice President Dennis Saputo said "While the acquisition of Qwest significantly increases CenturyTel's exposure to more competitive urban/suburban markets (about 80% of Qwest's access lines are in five metropolitan markets), the enhanced scale of the Company, combined with the addition of Qwest's national state-of-the-art fiber optic network, is expected to generate meaningful expense and capital efficiencies, especially those related to transport costs, network expansion and new product development." He added, "The new company should be able to capitalize on growth in enterprise services revenues, especially as the economy rebounds and given Qwest's selection as one of three carriers competing for the U.S. Government's Networx contract." The combined company is expected to generate significant free cash flow, especially after anticipated synergies. The rating affirmation also reflects CenturyTel management's commitment to an investment grade rating and its historically balanced use of free cash flow between debt reduction and shareholder returns.

The negative rating outlook for CenturyTel reflects the considerable execution risks in integrating a sizeable company so soon after another large acquisition (Embarq in July 2009) while confronting the challenges of a secular decline in the wireline industry. The negative outlook also considers the possibility that the Company may not realize planned synergies in a timely manner, especially if competitive intensity increases.

The affirmation of CenturyTel's Prime-3 short-term debt rating reflects its sizeable cash balance, ample committed back-up facilities, manageable near-term debt maturities and our expectation that it will generate significant free cash flow over the next 12 to 18 months.

The review of Qwest's ratings will evaluate the ability of the company to improve its operating performance and continue to reduce its leverage in light of the secular challenges confronting the sector and the potential distraction caused by working toward closing the merger. Positive rating pressure could develop prior to the merger based on improved fundamentals, specifically, if the company can sustain stable EBITDA over the foreseeable future. Qwest's rating might also be upgraded further if the company is acquired by CenturyTel.

Before the transaction can close, several regulatory approvals, including those of numerous state Public Utility Commissions, are required and conditions may be imposed by some of these states' regulatory authorities, or the FCC. Moody's affirmation of CenturyTel's ratings assumes that any condititions that may be imposed will not have a material impact on the Company's financial profile.

The Obama administration and Federal Communication Commission have proposed comprehensive reforms of inter-carrier compensation and universal service rules as part of an effort to expand broadband deployment, especially to un-served and under-served markets. "While the details of the final regulatory overhaul are far from clear and could change significantly over time, Moody's believes that the proposed merger of these two companies is likely to reduce the combined company's exposure to an adverse decision since the merger lowers the percentage of universal service and access revenues in the new company", added Saputo.

Moody's has taken the following rating actions:

On Review for Possible Upgrade:

..Issuer: Qwest Communications International Inc.

....Probability of Default Rating, Placed on Review for Possible Upgrade, currently Ba2

....Corporate Family Rating, Placed on Review for Possible Upgrade, currently Ba2

....Multiple Seniority Shelf, Placed on Review for Possible Upgrade, currently (P)Ba3

....Senior Unsecured Conv./Exch. Bond/Debenture, Placed on Review for Possible Upgrade, currently B1

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently a range of B2 to Ba3

..Issuer: Qwest Corporation

....Senior Unsecured Bank Credit Facility, Placed on Review for Possible Upgrade, currently Ba1

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently a range of Ba1 to Baa1

..Issuer: Qwest Services Corp.

....Senior Secured Bank Credit Facility, Placed on Review for Possible Upgrade, currently Ba3

..Issuer: Mountain States Telephone and Telegraph Co.

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently Ba1

..Issuer: Northwestern Bell Telephone Company

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently Ba1

..Issuer: Qwest Capital Funding, Inc.

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently B1

Outlook Actions:

..Issuer: CenturyTel, Inc

....Outlook, Changed To Negative From Stable

..Issuer: Embarq Corporation

....Outlook, Changed To Negative From Stable

..Issuer: Embarq Florida, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Carolina Telephone & Telegraph Company

....Outlook, Changed To Negative From Stable

..Issuer: Centel Capital Corp.

....Outlook, Changed To Negative From Stable

..Issuer: United Telephone Co. of Pennsylvania

....Outlook, Changed To Negative From Stable

..Issuer: Qwest Communications International Inc.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Qwest Corporation

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Qwest Services Corp.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Qwest Capital Funding, Inc.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Mountain States Telephone and Telegraph Co.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Northwestern Bell Telephone Company

....Outlook, Changed To Rating Under Review From Stable

Please refer to Moodys.com for additional research.

Moody's most recent rating action for CenturyTel was on September 14, 2009, at which time Moody's assigned a Baa3 rating to the company's Series P and Series Q note offerings.

Moody's most recent rating action for Qwest Communications International was on January 7, 2010, at which time Moody's assigned a Ba3 rating to the company's new note issuance.

The principal methodology used in rating CenturyTel and Qwest was Moody's Global Telecommunications Industry rating methodology, which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research and Ratings tab(December 2007, document #106465). Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Rating Methodologies sub-directory on Moody's website.

CenturyTel, Inc., headquartered in Monroe, Louisiana is a regional communications company that served approximately 7.0 million total access lines in 33 states as of December 31, 2009.

Qwest , headquartered in Denver, CO. is a RBOC and nationwide inter-exchange carrier (IXC). It served about 10.3 million access lines in 14 western states as of December 31, 2009.

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April 22, 2010

Research Update:

CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive

Primary Credit Analyst:
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Table Of Contents

Research Update:

CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive

Overview

- U.S. ILECs CenturyTel and Qwest Communications International Inc. have signed a definitive agreement under which CenturyTel will acquire Qwest in a tax-free, stock-for-stock transaction.
- We are placing our ratings on CenturyTel, including the 'BBB-' corporate credit rating, on CreditWatch with negative implications.
- We are also placing our 'BB' corporate credit rating on Qwest on CreditWatch with positive implications.
- We currently expect that if the transaction is completed as planned, the corporate credit rating of the combined entity is likely to be 'BB+' or 'BB'.

Rating Action

On April 22, 2010, Standard & Poor's Ratings services placed its ratings on Monroe, La.-based incumbent local exchange carrier (ILEC) CenturyTel Inc. on CreditWatch with negative implications, including the 'BBB-' corporate credit, 'A-3' commercial paper, and all other issue ratings. At the same time, we placed the 'BB' corporate credit rating on Denver-based ILEC Qwest Communications International Inc. on CreditWatch with positive implications.

The CreditWatch placements follow the announcement that CenturyTel and Qwest have signed a definitive agreement under which CenturyTel will acquire Qwest in a tax-free, stock-for-stock transaction. CenturyTel shareholders will own approximately 50.5% and Qwest shareholders will own 49.5% of the combined company.

We also placed the senior secured and unsecured debt at Qwest Communications International Inc. and Qwest Capital Funding Inc. on CreditWatch with positive implications. Additionally, we placed the senior unsecured debt at Qwest subsidiary Qwest Corp. on CreditWatch with developing implications, meaning that we could raise or lower the ratings. Issue-level ratings at the Qwest entities will depend on the outcome of the overall corporate credit rating review, the ultimate capital structure of the combined entity, and our recovery analysis.

The CreditWatch listings are based on our preliminary view that if the merger is consummated under the proposed terms, we anticipate the corporate credit rating of the merged entity to likely be either 'BB+' or 'BB'. The transaction is subject to shareholder and regulatory approvals and we expect it to close in the first half of 2011.

Rationale

Based on preliminary information, we expect that CenturyTel's combined pro forma 2009 leverage will be about 3.2x (including unfunded pension and other postretirement obligations [OPEBs] and the present value of operating lease payments), or about 3.0x including potential operating synergies. Total debt to EBITDA would be significantly higher than CenturyTel's current leverage of 2.3x on a stand-alone basis, but lower than Qwest's 4.0x stand-alone leverage. Still, the pro forma leverage is probably not supportive of an investment-grade credit profile, despite prospects for potential deleveraging, given the integration challenges and continuing access-line losses across the industry.

While the transaction improves CenturyTel's scale, making it the third-largest wireline operator in the U.S., with about 17 million access lines and 5 million broadband customers, it also increases the company's exposure to higher density markets, which have significant competition from the cable providers. Access-line losses at legacy CenturyTel were about 8.8% in the fourth quarter of 2009 compared to 11.2% at Qwest. While estimated operating cost synergies of about $575 million, which represent about 3% of total revenue, appear achievable, integration efforts will be difficult given the size of the combined company and CenturyTel's integration of previously acquired Embarq will likely not be complete until the end of 2011. Additionally, one-time integration costs of $800 million to $1 billion will constrain the combined company's initial net free cash flow generation.

CreditWatch

In resolving the CreditWatch, we will meet with management to review its business and financial strategies, including evaluating the prospective financial policy of the combined entity. We currently expect that if the transaction is completed as planned, the corporate credit rating on the combined entity is likely to be 'BB+' or 'BB'.

Related Criteria And Research

"Key Credit Factors: Business And Financial Risks In The Global Telecommunication, Cable, And Satellite Broadcast Industry," published Jan. 27, 2009, on RatingsDirect.

Ratings List

Ratings Placed On CreditWatch Negative

	To	From
CenturyTel Inc.		

Corporate Credit Rating	BBB-/Watch Neg/A-3	BBB-/Stable/A-3

Ratings Placed On CreditWatch Positive

Qwest Communications International Inc.		
Corporate Credit Rating	BB/Watch Pos/--	BB/Negative/--

Ratings Placed On CreditWatch Developing

Qwest Corp.		
Corporate Credit Rating	BB/Watch Dev/--	BB/Negative/--
Qwest Corp.		
Senior Unsecured	BBB-/Watch Dev	BBB-
Recovery Rating	1	1

Ratings Placed On CreditWatch Negative

CenturyTel Inc.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Commercial Paper	A-3/Watch Neg	A-3
Carolina Telephone & Telegraph Co.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Centel Capital Corp.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Embarq Corp.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Sprint - Florida, Inc.		
Senior Secured	BBB+/Watch Neg	BBB+

Ratings Placed On CreditWatch Positive

	To	From
Qwest Communications International Inc.		
Senior Secured	BB/Watch Pos	BB
Recovery Rating	3	3
Senior Unsecured	B+/Watch Pos	B+
Recovery Rating	6	6
Qwest Capital Funding Inc.		
Senior Unsecured	B+/Watch Pos	B+
Recovery Rating	6	6
Qwest Services Corp.		
Senior Secured	B+/Watch Pos	B+

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